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Seagate Technology Holdings Plc (STX)

Q4 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Seagate Technology Fiscal Fourth Quarter and Fiscal Year 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, 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 Q4 and fiscal 2026 year-end 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 also included on 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 are subject to risks and uncertainties associated with our business. To learn more about the risks, uncertainties and other factors that may affect our future business results please refer to the press release issued today and our SEC filings, including our most recent annual report on Form 10-K and quarterly report on Form 10-Q, as well as the supplemental information, all of which may be found on the Investors section of our website.

Following our prepared remarks, we'll open the call up for questions. 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 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 finish to an outstanding fiscal 2026. Our June quarter results outperformed our expectations for both revenue and non-GAAP EPS, and we expanded our non-GAAP gross margin for a 13th consecutive quarter. Our performance led to free cash flow margins of 31%, which totaled more than $1.1 billion, our strongest quarter in over a decade.

Our impressive fiscal 2026 financial performance was underpinned by the three structural growth pillars that I outlined last quarter: sustainable market demand, our differentiated technology roadmap and disciplined operational execution.

First, sustainable market demand. As our results show, demand for mass capacity storage is strong and growing. We delivered fiscal year revenue growth of 34%, led by cloud customers' demand for data storage solutions, amplified by the adoption of AI-enhanced applications. Given our momentum and the improved visibility we have into demand, we expect fiscal 2027 revenue growth to outpace our performance in fiscal 2026.

Second, we are executing our differentiated technology roadmap, anchored by our HAMR-based Mozaic platform. HAMR enables us to increase areal density and store more data on each disk. As a result, we can scale exabyte shipments to meet rising demand in a highly capital efficient manner to capture more value per drive. Exiting the year, HAMR-based products represented approximately 40% of our nearline exabyte shipment run rate, and we continue to invest in HAMR capabilities to support our mid-20% exabyte growth target, while further enhancing profitability and capital efficiency.

Our third pillar centers on translating demand strength and technology advancements into profitable growth. In fiscal 2026, we increased non-GAAP gross margin 10 percentage points, grew non-GAAP EPS more than 90%, and generated record free cash flow of $3.1 billion.

Looking ahead to fiscal 2027, we expect to deliver sequential margin and cash generation growth throughout the year. Our confidence is supported by the scale, quality and duration of our data center customer commitments in a strengthening demand environment. Data center demand now represents approximately 90% of our exabyte shipments. Based on the long-term supply agreements in place today, the vast majority of our nearline exabytes are now allocated into calendar 2028.

Importantly, we are not seeing customers pull back on planning horizons. As our strategic relationships deepen, many are actively seeking to extend planning horizons through 2029 and beyond, which we believe reflects growing confidence in their own long-term infrastructure needs. These engagements reinforce our view of demand durability while providing customers greater supply assurance and support for their key technology transitions.

We remain disciplined in securing orders from these customers prior to initiating drive production, with contracts that define both product configuration and pricing terms, covering the entirety of calendar 2027.

We continue to execute our value-based pricing strategy, balancing a stronger demand environment with our objective of supporting sustainable, profitable growth over the long term. Cloud customers remain the largest driver for nearline demand today, with three years of sequential quarterly exabyte growth and no evidence of a slowdown as AI adoption now builds on demand for traditional data intensive applications, including video.

We continue to benefit from cloud infrastructure deployments, which fueled the need for scalable, cost efficient and reliable storage. At the same time, we believe storage demand will prove durable through investment cycles.

First, new data is constantly being created across existing cloud and enterprise infrastructure. And second, customers are retaining and reusing more of that data over time as its value extends beyond its initial use. AI is reinforcing these trends and illustrating how data is not only growing, it is compounding. With the transition from AI model training to inference to agentic applications, more data is generated and retained for historical context,

compliance and future reuse. As these data center environments become larger and more complex, customers must balance performance, energy consumption, and cost across distributed infrastructures.

Cloud providers have long addressed these challenges through tiered storage architectures that combine high performance memory and SSDs with mass capacity hard drives to optimize performance and economics at scale.

Our recent white paper with SK hynix illustrates the importance of tiered storage for inference and agentic AI workloads, which show a direct benefit to hard drive storage. These workloads rely on persistent context across user interactions, and Key-Value or KV cache is used to retain and reuse that context efficiently. KV cache can expand significantly as the number of users increase and interactions become longer and more sophisticated.

Our research found that by extending KV cache data across memory, SSD, and hard drive tiers, organizations can retain more context and avoid re-computing previously generated data. This drives the need for increased hard drive storage and reduces GPU usage during the most compute intensive phases of an agentic application. As a result, GPU resources are available for additional revenue generating workloads.

Additionally, we are now seeing the relevance of tiered storage extend beyond large cloud data centers into enterprise deployments. As enterprises increasingly operate across public cloud, private cloud, and on-prem environments, they must manage growing volumes of structured and unstructured data while facing similar performance costs and energy consumption trade-offs that hyperscalers have addressed for years.

We see this broadening of demand in our business. Enterprise and nearline revenue increased for a fifth consecutive quarter in June, and we are engaging more frequently with neocloud operators and leading model developers. As their data management needs scale, these providers are starting to adopt modern tiered storage architectures where hard drives provide the trusted mass capacity foundation.

Looking ahead, we believe physical AI applications such as robotics and autonomous vehicles will drive the next step function expansion in data creation and retention at the edge. These applications rely on world models trained on millions of hours of historical and synthetic video content in order to understand and reliably interact with the physical world.

Taken together, these trends reinforce a structural change in storage demand. Applications are creating, retaining, and reusing more data across cloud and enterprise environments than ever before, extending the role of mass capacity storage across modern tiered architectures and creating additional opportunities for Seagate over time.

Our technology roadmap plays an integral role in Seagate's ability to capitalize on growing storage demand. Advancing areal density is our North Star. We believe that increasing the amount of data stored on every disk we produce is the fastest, most capital efficient path to supporting long-term exabyte growth while maintaining relatively stable hard drive unit output. Our expertise across material science, precision manufacturing, advanced photonics and nanoscale wafer production has enabled us to pioneer HAMR technology and the Mozaic platform, which have increased storage density per disk and per drive. We continue to push the boundaries of innovation, as demonstrated by our vertically integrated laser manufacturing capabilities, which yielded tens of millions of edge-emitting lasers last quarter.

Our team's achievements underscore the scale, maturity, and supply chain resilience behind our Mozaic platform. These innovations are improving the total cost of ownership for our customers, while expanding our exabyte output and enhancing efficiency across our operations and supply chain.

We ended fiscal 2026 on schedule with our HAMR-based product ramp. Our Mozaic 3 products are now qualified and operating in production environments across all major cloud customers. Our second-generation Mozaic 4 platform, capable of supporting up to 44 terabytes per drive, continues to ramp with the two largest global CSPs, and additional customer qualifications are underway. We expect to achieve our next ramp milestone by exiting calendar 2026 with 50% of our HAMR exabytes on our Mozaic 4 platform.

Looking further ahead, Mozaic 5, our 5+ terabyte per disk platform remains on track for qualification shipments in late calendar 2027.

Wrapping up, we delivered across the board in fiscal 2026, with each quarter building on the momentum of the last, and we expect that momentum to continue through fiscal 2027. The growth in data creation, retention, and utilization continues to elevate the importance of hard drive storage and modern data architectures. Together, our demand outlook, differentiated technology strategy, and disciplined execution position Seagate to capture the significant opportunities ahead and create long-term value for our stakeholders.

I'll close by thanking our global team for another year of outstanding execution. I'd also like to thank our customers, suppliers, partners and shareholders for their continued support and trust in the company.

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

Gianluca Romano

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

Thank you, Dave. We capped fiscal 2026 delivering strong sequential double-digit top and bottom line growth in the June quarter, supported by disciplined operational execution and both revenue and gross margin expansion across every end market we serve.

June quarter revenue was $3.6 billion, up 17% sequentially and up 48% year-over-year, exceeding the high end of our guidance range. We achieved record profitability levels across gross margin, operating margin, and earnings per share.

Non-GAAP gross margin came in at 52.7%, up 570 basis points sequentially. Non-GAAP operating margin increased 710 basis points sequentially to 44.6%, and non-GAAP EPS was $5.71, up 39% quarter-over-quarter and 121% year-over-year, exceeding the high end of our guidance range by a wide margin. As Dave noted earlier, we generated free cash flow of more than $1.1 billion, rounding out our best quarterly performance in over a decade.

Sustained data center demand continued to outpace broader company growth. In the June quarter, we shipped a total of 218 exabytes, up 34% year-over-year, with data centers representing 89% of the total. We shipped 195 exabytes into the data center market, up 11% sequentially and 43% year-over-year, with data center revenue coming in at $2.9 billion, up 17% sequentially and 57% year-over-year.

Global cloud customers are driving the vast majority of data center revenue and exabyte demand. At the same time, demand trends in the enterprise OEM data center markets have strengthened, reflecting growing storage requirements across a broader set of customers and workloads, many of which Dave highlighted earlier. In the June quarter, we delivered strong double-digit year-over-year growth across both revenue and exabyte shipments into the enterprise OEM market.

To support long-term demand growth, we continue to expand the deployment of HAMR technology across our product portfolio. Our goal is to transition an increasing portion of production to HAMR-based products, [ph] first (00:15:36) to address cloud customers and over time to broaden adoption across enterprise deployments. As we make this transition, we are strategically investing in additional tools and technology to support the manufacturing of our HAMR products. These investments enable us to maintain relatively stable drive unit output as customers mix up to higher capacity drives and manufacturing cycle time increase. We believe these actions will enable us to deliver nearline exabyte growth in the mid-20% range over the next few years.

Beyond the data center, our edge IoT market made up 19% of revenue at $697 million, up 14% sequentially and 20% year-over-year, due in part to ongoing tight supply conditions and increasing NAND pricing.

Moving on to the rest of the income statement, non-GAAP gross profit increased significantly to $1.9 billion, up 31% quarter-over-quarter and more than doubling year-over-year. Non-GAAP gross margin expanded to 52.7%, up from 47% in the prior period. These improvements reflect continued execution of our long-term pricing strategy and a stronger product mix. We expect these trends to remain favorable, underpinned by strong demand.

Non-GAAP operating expenses were $293 million, or 8% of revenue, reflecting our discipline in cost management. Non-GAAP operating profit increased 39% sequentially to $1.6 billion, representing 44.6% of revenue and underscoring the scalability of our financial model, continued areal density innovation, supply discipline and pricing strategy execution.

In the June quarter, other income and expenses were $58 million and we project OI&E to decrease further in the September quarter to approximately $45 million, reflecting the benefit from lower interest expense as we continue to reduce our outstanding debt balance.

Non-GAAP net income grew to $1.3 billion, with corresponding non-GAAP EPS of $5.71 per share, based on tax expense of $242 million and a diluted share count of approximately 231 million shares, including the net impact of our 2028 convertible notes.

Turning now to the cash flow and the balance sheet. In the June quarter, we invested $187 million of capital expenditures with total fiscal 2026 CapEx representing 4.7% of revenue. Looking ahead, we expect capital expenditures for fiscal 2027 will remain well within our target range of 4% to 6% of revenue. Free cash flow generation expanded to $1.1 billion, up 17% from the prior quarter. We expect cash generation to further improve throughout fiscal 2027, supported by sustained demand, operational efficiencies and CapEx investment discipline.

During the June quarter, we returned approximately $283 million to shareholders through dividends and share repurchases. Strengthening the balance sheet was a key objective for fiscal 2026, and we delivered on our plans. We ended the year with cash and cash equivalents of $1.7 billion and strong liquidity of $3 billion, including our undrawn revolving credit facilities. Our gross debt balance was approximately $3.6 billion exiting fiscal 2026, down $1.4 billion year-over-year, including $300 million that we retired in the June quarter.

Our resulting net leverage ratio improved to 0.4 times, based on adjusted EBITDA of $1.7 billion for the June quarter, up 37% quarter-over-quarter and 142% year-over-year. During the September quarter, we are retiring an additional $1.2 billion in debt. We have already extinguished $1 billion in high yield senior notes in July and plan to retire the remaining balance on our convertible notes in September.

Turning now to the September quarter outlook. Visibility from our BTO model reinforces our confidence in sustained demand for high capacity nearline drives as AI adoption accelerates. We see continued revenue and profitability expansion in the September quarter, supported by our Mozaic ramp and pricing strategy.

We expect September quarter revenue to be in a range of $4.1 billion, plus or minus $100 million, which represents a 56% year-over-year improvement at the midpoint. Non-GAAP operating expenses are expected to be approximately $300 million.

Based on the midpoint of our revenue guidance, non-GAAP operating margin is expected to be around 50%. Non-GAAP EPS is expected to be $7.30, 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 2 million shares.

To close, Seagate's financial results and outlook demonstrates our ability to deliver profitable growth, expand margins and drive significant cash generation. We remain confident in delivering sequential revenue growth and margin expansion through fiscal 2027, while creating long-term value for customers and shareholders.

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 comes from Aaron Rakers with Wells Fargo. Please go ahead.

Aaron Rakers
Analyst, Wells Fargo Securities LLC

Q

Yeah. Thanks for taking the question and congrats on the results. I want to dig a little bit deeper into the gross margin. I guess given the guidance that you've outlined, it looks like your guide is implying like a mid-57% or so gross margin into this next quarter. So I guess my question is, one, is that kind of the guidance that you're providing?

And two, how do you think about the cost down execution as we move through Mozaic 3 to Mozaic 4? You've been operating at like a mid-teens kind of cost down per year on a per terabyte basis. Do you think that's sustainable, or how should we think about modeling that over the longer term? Thank you.

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

A

Aaron, I'll let Gianluca ask this – answer this quantitatively, but the way we're thinking about these product transitions is, and I think you know this well, we have to actually put our factories on pause to go through the product transition a little bit, so as we're moving product from 3 terabyte to 4 terabyte to 5 terabyte, and then there's yield issues. And as we out execute our plan, what happens is we have opportunity for costs, to drive better costs than we thought. So that answers the second part of your question. Gianluca?

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

A

Yeah. Hi, Aaron. So, yeah, very good results, I would say, on gross margin already in fiscal Q4, so strong improvement sequentially. And we are guiding up again. So our pricing strategy is continuing, as we have discussed now for several quarters. I would say we have adopted this strategy more than 12, 13 quarters ago. So we are continuing in that direction. Every quarter is a bit different, but the strategy is the same. The mix is helping. We are moving more and more into the high capacity nearline product. We are seeing another strong increase in nearline exabytes in the quarter.

So everything is continuing in the same direction that we have driven the company for many quarters. Or Dave discussed about the cost. Of course, moving the mix from 3 terabyte to 4 terabyte per disk is, of course, giving us another boost in term of profitability.

Operator: The next question is from Ben Reitzes with Melius. Please go ahead.

Ben Reitzes
Analyst, Melius Research LLC

Q

Hey, guys. Thanks for taking the question. It's great to be covering you again. I wanted to talk about two longer term – ask you about two longer term demand drivers potentially. I mean this Key-Value cache use of the HDD tier at hyperscalers, how much is that helping right now? Is it on the come and do you expect it to kind of ease into your exabytes and how do we look at that? And then – and when do you think physical AI really starts helping your exabytes as well? Thanks a lot.

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

A

Right. Ben, I think that's good. Both very, very early days. I would say that the agentic flows that we're seeing are actually what – that's the reason we pointed to the KV cache discussion.

I think the key word here is context. When you set up these agents, you really need to give them context. And sometimes that's a very broad set of rules across your business or your problem set or whatever. And as you do that, then you don't want to have to redo that context every time. You don't want to have to recompute all that context every time. So that's what's driving storage. But still very early days.

Physical AI, we are quite excited about. I think – I hear a lot about robotics. We've all seen autonomous vehicles. People focus very much on the end product, the robot, if you will. But I actually think it's a lot more of a data play. These are – these robots have sensors on them. They are sensor networks. In order for them to learn, the data actually comes back up into a local cloud or a bigger cloud. And so when people say physical AI to me, I think it's a lot more about the data, the data processing, what kind of learning you're getting from that and to the – to exactly to your question, how much you have to store to make sure you have that context long term. So we think these are both great opportunities.

In particular, the physical AI stuff is largely more about video. So it's a very unstructured type of data coming. It's not like the days of old where you had spreadsheets or checklists to fill out that were complete, structured data. This is very unstructured data that the machines are learning from and they might want to learn again and again and again. But you don't want to have to re-promote that into the memory tier. So we think that's a great opportunity for us.

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

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

Q

Great, guys. Thank you for taking my question and congrats on the really nice results and guide. Gianluca, for a number of quarters you've been quite steadfast that price per exabyte growth would be kind of this mid to high-single digits year-over-year. You just reported 10% year-over-year price per exabyte growth in June. I think the September quarter guide implies pricing growth closer to maybe 20% year-over-year or even above that.

Can you maybe just provide an update for us on how we should be thinking about pricing looking forward? Why this trend we're seeing in the September quarter shouldn't sustain or maybe even accelerate just given supply-demand imbalance, customer demand strength, delivering more value to customers, et cetera? Thanks so much.

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

A

Hi, Erik. You are correct. As I said before, it's not that we are changing our strategy, but for sure the gap between supply and demand is now a little bit bigger than few quarters ago and our volume was a little bit higher in fiscal Q4. Now, we think can be maybe a little bit of output available in fiscal Q1. And of course, we are pricing that increased output at a very good price right now. So, I'll say not really a change in our strategy, but a very good execution. And with demand being particularly strong right now, we will take a little bit more pricing benefit.

Now, of course every quarter is different. We will see now in the following few quarters how that pricing will evolve. But I think we were very clear, both Dave and I, in our prepared remarks. We see every quarter revenue to improve and every quarter gross margin and profitability in general to increase. So of course, pricing is a part of this sequential improvement through the fiscal year.

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. Great results here. And if I may just on the exabyte CAGR growth, I think you guys reiterated sort of this mid-20%. You guys obviously have been executing to much greater than that. I think I heard about some investments that you're doing. Just help us understand like this, about 30% exabyte growth rate. Could that sustain as you enter fiscal 2027, especially as you're migrating more towards your second generation HAMR, and then you're ramping into further out into your Mozaic 5.0. So if you could just help us understand why exabyte CAGR could or could not sustain at this 30% as we look into fiscal 2027? Thank you.

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

A

Thanks, Asiya. We – as we said before, we're not really increasing the box count. We are working really hard to get the heads and media inside the boxes, to be able to go up and the technology capability to get exabytes out. And exactly to your point, what's the ultimate CAGR? It's how fast we can do that, how successfully we can do that. We are going through product transitions. I mentioned this earlier. So as you do that, there's a little bit of inefficiency in your factories. But long term, you actually get many, many more exabytes out as we go from [ph] Mozaic 3 to Mozaic 4 to Mozaic 5 (00:31:59). And that's the way we're focused.

The – what you've seen so far is the transition largely to [ph] Mozaic 3 (00:32:07). We are ramping to [ph] Mozaic 4 (00:32:08) right now, and the [ph] Mozaic 5 (00:32:09) is coming. And so how we play that is depending upon

how we see end customer demand, what the qualification schedule is like for those customers. And we need visibility because that's three to four quarters out from when we do wafer start. But also we get a little bit better yields, we can out a few more exabytes here and there. And the team has been doing fantastic on that front.

So all of these dynamics are how we actually have to predict the next few years. And that's one of the reasons we say mid-20s because we execute a little bit better, and that's conceivably, but there's a lot of invention required still.

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. A follow up on pricing. I'm curious if you could kind of speak to like-for-like versus the benefit of newer products. And then moreover, if you could speak to how we should be thinking about contracts rolling off, renegotiating of existing contracts and how that is impacting the relative kind of year-over-year pricing, particularly as it relates to that strong 20 plus percent number embedded in the September guide and how to think about the moving parts into December and beyond. Thank you.

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

A

Thanks, C.J. We are – as we said in the prepared remarks, we're trying to be predictable for at least the next year because that's what we have visibility to in our factories. And that's when we know the exact configuration and we determine pricing with our customers. But as various customers are rolling through those periods, interesting things happen.

First, there's product qualification. Like-for-like is kind of tough because we are moving products so quickly through transitionary periods. That benefits us, it also benefits them. If they're building a data center, they get a better TCO out of those products. And then there's other architectural reasons that may slow down or speed up their ability to ingest these things. So it is fairly complicated.

What we're seeing over time is not only what we lock in for that period of a year, is we also see our ability to execute a little bit better, and that's usually with two or three quarters out. That's not in quarter, but we execute a little bit better. We have more exabytes to give, and we determine how hungry the market really is for those exabytes. And usually they'll pay more than that contract price, if you will, for those exabytes. And so that's why you see these step functions. And therefore, I think we're all confident about the demand that we're seeing, both ourselves and our customers. But also they are voting every day with that by signing up to pricing that is even higher than some of the contractual stuff that we had done together.

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

A

Yeah, C.J., you were asking about the new orders that we are negotiating and the new LTAs that we are negotiating. The trend is the same over the past. So we see strong demand and of course opportunity for us to continue to push on our pricing and pricing strategy and continuing the same direction. Every quarter is a bit different. Depend how many contracts we negotiate, what is the volume for different customers, what is the upside volume, if any, that is available and what is the price?

So it's not a straight line, but I would say the trend is clear. I'd say we are really performing the same way for more than three years at this point is now – right now, it's particularly strong in term of supply, demand and pricing, but is going to continue. We already – we were already discussing about the next two or three quarters going in the same direction.

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

Tom O'Malley
Analyst, Barclays Capital, Inc.

Q

Hey, guys. Thanks for taking my question. I just had a two-parter here. So you guys have previously said 70% of nearline exabytes will be HAMR by June 2027. How are you tracking to that?

And then I saw in the preamble that you specifically called out, as you are transitioning there, you're strategically investing in additional tools, technology and manufacturing. Is that just something that you would normally put in the preamble? It stood out a little bit to me. Could you maybe be more specific on what you're investing in there to help you get to that percentage of the total mix? Thank you.

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

A

Yeah, we are – Tom, we're still pushing HAMR well, and it's reacting exactly what we thought it would a couple of years ago. There – we have – as time has marched on, we have pushed maybe PMR a little bit harder than we thought. So transitionarily, I think we're still on the – generally the same trends and everything's going well.

Relative to the investment, most of the tools that we're investing in are directly contributing to those heads of media that are driving those technology transitions. I'm very happy with how the teams executed on that front, [ph] 3 to 4 to 5 (00:37:22), like we've talked about before. Very optimistic about it. And I think ultimately, HAMR is going to completely take over the portfolio because of it. We're learning more and more about the tools all the time. And that's part of how we do areal density development is to get the latest tools on, learn how to run them and see what we can do with them. And I would say, long term, that I think there's probably more favorability for areal density than I thought a couple of years ago.

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

A

Yeah. In term of HAMR percentage of exabytes, no, we have actually just achieved our first milestone, which was to achieve 40% of nearline exabyte sold on HAMR drives by June. So we just did that. And so I would say we are on track to achieve the future goals.

On – actually on the new investment, there is of course a big difference between components and hard disk drive units. If you – for example, if you look our last year and if you look at the number of disks and the number of heads inside the box, we probably grew between 15% and 20%, and the units were absolutely flat. So there is always a mix up of drives going more and more into the nearline and going more and more close to the 10 disk and 20 heads.

But of course there is a strong shift year-over-year-over year. This happened for now the last 10, 20 years. So it's normal that even with flat hard disk drive units, we need to increase heads and media through time. That's normal part of the business.

Operator: The next question is from Mark – excuse me.

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

A

Sorry. Sorry, one more thing on that point, because I think a lot of people still don't understand this. So the thing that's actually driving factory complexity is not just drive numbers or heads numbers or media numbers. It's actually the product transitions. These new products, say 4 terabytes going to 5 terabytes, there will be more time in the tools, more time through the tools. Sometimes it has to touch the tool multiple times. The factory complexity is what's driving a lot of the investment that you made for reference at the time.

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

Mark C. Newman
Analyst, Bernstein

Q

Great, thanks for taking my question and congrats on another great quarter. Lots of questions on the pricing, so I wanted to talk more about the technology and the cost. Could you update us on the HAMR portion of your shipments? So, I think you've guided before 40% exiting the fiscal year on HAMR and 50% exiting calendar year 2026. Is – are we on target for that or tracking ahead of that? Like guidance you can say on that?

And then also Mozaic 4 you said ramping to global CSPs. Is that going to – I think you said it's a very small portion of revenue in the previous quarter, but it's going to become more significant in the first – in the September quarter. Just want to clarify that. And then given all that, should we expect that cost declines should be potentially accelerating given this upcoming ramp of Mozaic 4 and now you have almost – you're now at the sharpest part of the S-curve for the HAMR adoption. So just wanted to see if anything you can comment on that would be really appreciated. Thanks very much.

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

A

Thanks, Mark. Yeah, we're on target for all the metrics that you talked about. I would say relative to Mozaic 4, it was pretty consequential last quarter even, and it's ramping quite nicely. We intentionally have maybe throttled the Mozaic 4 ramp because of qualification cycles and everything else, and other customers as they qualify. We are – they are full of the last generation product as well, so things are fairly complicated in the supply chain, so – but Mozaic 4 is quite successful out in the market. It will continue to ramp over the course of this next fiscal year.

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

A

Yeah. No, just to clarify, no, we start shipping Mozaic 4 in March. So March quarter volume was pretty low, but June quarter was a good ramp up. It is also a strong contributor to our financial performance and will be even better in the September quarter. And then of course, we are already all focusing on the next step. That will be the 5 terabyte per disk and the 50 terabyte drive in next calendar year.

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

Wamsi Mohan
Analyst, Bank of America Merrill Lynch

Q

Yes. Thank you. I was wondering if you could maybe just clarify on how much of your fiscal 2027, fiscal 2028 exabyte view is locked in via build-to-order versus maybe not under LTAs. And as you think about the pricing uplift in September, part of that is coming from one of your initial HAMR customers that had more favorable pricing rolling off. So should we still expect the price momentum to continue at those levels for the rest of the fiscal year?

I know you said that you would see revenue and margin increase every quarter, but any thoughts on sort of the magnitude of either sequential or year-on-year, given those comments around the initial customer? Thank you.

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

A

Yeah, Wamsi, the – you're right. On the second point, I think it's important to realize that as we do roll through, there's different phases that different customers are under, and that renegotiation occurs. We are pretty predictable, I think, through FY 2027. So we have good line of sight. But we are also getting a little bit more product out as we continue these product ramps because we're working the yields and scrap really aggressively on new products. So to the extent that we can, since there's such strong exabyte demand out there, we'll offer that to people out in the market that are showing us that opportunity.

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

A

Yeah. Relatively to that particular customer, the volume that was sold at the preferential price in June was minimal. So, September, we will not have any. So there is a little bit of a positive impact from that. But is not the major reason why pricing is a little bit better in September than June. Of course, there's more overall demand. And those are the customers that are chasing a little bit more volume right now.

Operator: The next question is from Joseph Cardoso with JPMorgan. Please go ahead.

Joseph Cardoso
Analyst, JPMorgan Securities LLC

Q

Hey, good afternoon. Thanks for the question. Maybe just a clarification from my end on not really seeing or trying to increase the box count here. Does that encompass your visibility into nearline allocations into 2028 and the planning that you're seeing extending into 2029? And then how should we think about visibility into pricing in those outer years as well? Thanks for the question.

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

A

Thanks, Joseph. Yeah, I mean, you're right. Thanks for the question. Because many investors are new to this stock, so we'll try to explain this again. So our strategy coming out of the last downcycle has been to keep the number of drives flat, and we're still on that path. Inside the drives, however, there's all these critical components, heads and media, and that is rising slightly. I think Gianluca made reference to this before. So that puts strain on our internal heads and media fabs, which are under our control.

And we're going through these aggressive transitions. That's the big story that – the big story is the process content, the manufacturing complexity as we move from 3 terabytes to 4 terabytes to 5 terabytes, the routes get more complicated and the technology transitions are putting a large strain on these – on our internal components.

But with the curves that we are on, we believe that this is the best way to bring more exabytes out into the world is to stay focused this way. So that's our strategy.

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

Karl Ackerman
Analyst, BNP Paribas Securities Corp.

Q

Thank you. Dave, you spoke about qualifications on Mozaic among hyperscalers. But how should we think about Seagate's growing exposure to neoclouds and foundational model companies? I was hoping you could parse between demand from traditional hyperscale, neocloud and maybe on-prem implicit in your September outlook. Thank you.

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

A

Thanks, Karl. Yeah, I – two years ago, I would have said neocloud is probably largely compute based. But we're starting to see that even some of the largest neoclouds, they need a lot of data coming at them. And where do they get that data? In the past, they might have got that from traditional hyperscalers or – but there are some places where neoclouds are saying, I need instances close to me.

By the way, I do not think that's necessarily competitive with the hyperscalers. I mean there are so many different applications, specific reasons for people to have an exabyte or two sitting around, especially training, various types of training for applications. So, we are starting to have exactly the dialogues that you talked about. Everyone knows the hyperscaler architectures and the efficiency of the hyperscaler architectures because I know that they want that same efficiency.

And in some cases, we're talking about systems-level discussions with these customers. In other cases, we're just talking about drives. They also – since they're going to be running this gear for a long time, they want to be on the cutting edge of technology transitions. Sometimes that's hard because of feature sets, and they may not be as robust as some of the other people, so they need help with that. And it is a very complicated qualification space.

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

Amit Daryanani
Analyst, Evercore ISI

Q

Good afternoon. Thanks for taking my question. I guess, Dave, as you look at the LTAs and the visibility on exabyte demand that you have for 2028 and even calendar 2029, can you meet all the exabyte demand that's out there in 2029 entirely through areal density gains? And maybe just touch on how secure do you think your own upstream supply chain is for specialized components, especially as HAMR starts to scale up. I'd love to just kind of understand the component side from your perspective?

And Gianluca, I'd love to understand when are you going to get to 80% gross margins, if you want to oblige and answer that? Thank you.

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

A

Thanks, Amit. So, on the supply chain piece, working with our supply partners that have been through a lot, like we were, a few years ago, as you know. We're making sure that everybody's kind of lined up and it's well orchestrated. That's an important part of our supply chain. We cannot have people kind of individually doing investments and then someone else not doing the investment and not be well orchestrated because that drives cost the wrong way.

How confident are we in demand long term? Very confident. I do think that there's a lot of people out trying to understand all these new applications that are coming at us and saying what does that mean for the storage tier? I also think that there's well-tractioned applications already in the market, whether they're pre-AI, which was huge, right, some of the video applications we've talked about before, or whether they're now AI-enabled that are driving the storage tier even higher. And so the forecasting, especially for some of those new applications is relatively harder. I think there's a lot of optimism around it. But I also think that the existing data sphere, if you will, inside of these cloud service providers is growing at a certain large clip anyway.

I do not think that probably our areal density transitions are going to be sufficient, but I do think that they are strong. And I think it allows people to plan their business as well, and that's one of the reasons we're having good conversations out in that timeframe.

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

On the gross margin, Amit, I will say, our incremental gross margin has been very strong for the last several quarters. Overall, gross margin is improving sequentially very well. So we don't have a specific target. We will continue to improve based on the business situation. And we know already that for the rest of the fiscal year, we will have sequential improvement every quarter. And then we will see at a certain point where we are. But we don't have a specific number that we are trying to achieve.

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

Steven B. Fox
Analyst, Fox Advisors LLC
Q

Hi. Good afternoon. I just wanted to ask a free cash flow question, if I could. So off of a 10-year high, like, can you talk about, I guess the dynamics that drive from a – from just a manufacturing standpoint a higher free cash flow margin in the future, because as the areal density increases, the increases as a percentage are smaller. So I don't know if that helps, or, Dave, to your other point about passing through the same equipment makes it more capital intensive, et cetera.

And just as a follow-up to that, just can you maybe talk about where – remind us where you want to get debt levels to and when buybacks could start? Thanks.

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

Yeah. Thanks, Steve. So, we'll stay within our capital model. I mean, we talked about 5% – 4% to 6% is our – of revenue is our range for CapEx. The tools we're buying are modern tools, and we're refreshing part of the fleet even with that 5% of CapEx, the 5% of revenue as CapEx. We're refreshing the fleet and doing quite well with that. So we'll turn all that into areal density, and that's what we're really excited about.

I think relative to free cash flow, from an OpEx perspective, we don't see the need to add a bunch of OpEx. We feel our team is doing really well on all the innovation vectors, whether it's a sort of mechanical vector or it's a quantum device vector in the recording fabs or lasers now or whatever. I mean, we think that the team is funded well and doing well. And so we think we have visibility to continue areal density without raising CapEx too much. So I think all of that translates into free cash flow that's growing like we talked about.

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

Yeah. On the debt part, we ended our fiscal 2026 with $3.6 billion in debt, which is already a huge reduction from about $5 billion that we had at the beginning of the fiscal year. We will reduce debt even more during the quarter. Actually, we have already done a good step in the month of July, but we will probably end fiscal Q1 at $2.4 billion in debt. And we still have one note that has a fairly high interest rate that I would like to address in the near future, maybe next quarter, maybe the following quarter. But we are doing already more share buybacks than what we have done in the prior quarter. So this quarter, we are having – we are executing a higher level of share buyback, and we will continue in the next several quarters.

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

Vijay Raghavan Rakesh
Analyst, Mizuho Securities USA LLC
Q

Yeah, hi. Congratulations, Dave and Gianluca. Just a couple – two quick questions. One, when you look at the hard disk drive, the nearline attach rate, is there a way to look at how the attach rate has changed on the GPU ASIC side per rack with agentic AI or KV cache picking up? And how does – how is that trend looking this year versus last year, let's say, when there was no agentic AI?

And Gianluca on the...

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

Yeah.

Vijay Raghavan Rakesh
Analyst, Mizuho Securities USA LLC
Q

...margin side, should we expect margins to kind of get to the 60% plus or if you can give us what the incremental margins are on HAMR 4 versus prior, or is there a way to look at mix of HAMR 4, I guess. Thanks.

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

So I'll take the attach rate discussion. I know there are people out there in the world trying to model this, and it's a noble effort, but I think it all comes down to application space. So there are certain applications where you may need a lot more context, and there are certain applications where maybe you don't need as much. And so depending on the application pickup on this agentic AI, and we talked about KV cache in the prepared remarks, it could be a lot, it could be a little. I think we're still trying to factor that in.

And that's some of the stuff that as we get into modeling 2029 and 2030 and beyond, I think we're going to have to work steady with our customers to watch those applications carefully. Pretty excited about it. And that's not the discussion about physical AI either. That's just on what I would call more enterprise-type applications.

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

A

Yeah. On the margin, we – last quarter, we were at almost 53%. We are guiding higher in September. Our incremental gross margin is well above the 60% that you were indicating. So, I am not guiding for the future, but no, the trend is, of course, to have a stronger and stronger gross margin. And we will see what we will achieve in the next few quarters. But as you know, we are guiding something that is not too far from the number already in September.

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

Ananda Baruah
Analyst, Loop Capital Markets LLC

Q

Yeah, thanks guys for taking the question. Dave, maybe just sort of dovetailing off your comments about application type, is there a easy way or a simple way to think about currently what you guys see as the more prominent applications driving demand right now? And before you get to physical, maybe how you see those meaningful application types manifesting over the next couple of years? Thanks.

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

A

Thanks, Ananda. Yeah, the way I think about it, and I've been around for a long time, we know, so, you'd have to be careful with me. But if you're taking a small blocks of text, whether it's forms that somebody filled out or a ERP or something like that in the – and I say small blocks of text kind of jokingly because that could still be terabytes worth of text, I think that's probably not what we're talking about.

But when you start to have a lot of unstructured data like video data or multiple sources of unstructured data, sometimes it may be sensor data, it may actually still be text, but it's just necessarily coming in from all kinds of different sources, those are the applications that I think are going to require a lot more processing power. And you don't want to redo that processing power over and over again. So this is happening in enterprises. It's not just happening in hyperscalers. It's happening at the extreme edge as well. And I think these trends are very favorable for us before we ever get into something like physical AI.

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

Thanks, Gary, and thanks everyone for joining us today. Fiscal 2026 was an outstanding year for Seagate, reflecting strong execution by our global team and deep engagement with our customers. As we move into fiscal 2027, we are well positioned to address the opportunities in front of us. We remain focused on executing our technology roadmap, capturing profitable revenue growth and delivering long-term value creation for all of our stakeholders. We look forward to updating our progress with you in the quarters ahead.

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