



Western Digital®

Second Quarter of Fiscal 2020 Earnings Presentation

January 30, 2020

investor.wdc.com

Forward-Looking Statements

Safe Harbor | Disclaimers

This presentation contains forward-looking statements that involve risks and uncertainties, including, but not limited to, statements regarding our product and technology portfolio; market positioning; business strategies and growth opportunities; our expected future financial performance; cost and expense reduction plans; and market, hard drive industry and flash industry trends. Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved, if at all. Forward-looking statements are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements.

Key risks and uncertainties include volatility in global economic conditions; business conditions and growth in the storage ecosystem; impact of restructuring activities and cost saving initiatives; impact of competitive products and pricing; market acceptance and cost of commodity materials and specialized product components; actions by competitors; unexpected advances in competing technologies; our development and introduction of products based on new technologies and expansion into new data storage markets; risks associated with acquisitions, divestitures, mergers and joint ventures; difficulties or delays in manufacturing; the outcome of legal proceedings; and other risks and uncertainties listed in the company's filings with the Securities and Exchange Commission (the "SEC") and available on the SEC's website at www.sec.gov, including our most recently filed periodic report, to which your attention is directed. We do not undertake any obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by law.

This presentation includes references to non-GAAP financial measures. Reconciliations of the differences between the non-GAAP measures provided in this presentation to the comparable GAAP financial measures are included in the appendix and in the Investor Relations section of our website. We have not fully reconciled our non-GAAP financial measure guidance to the most directly comparable GAAP measures because material items that impact these measures are not in our control and/or cannot be reasonably predicted. Accordingly, a full reconciliation of the non-GAAP financial measure guidance to the corresponding GAAP measures is not available without unreasonable effort.

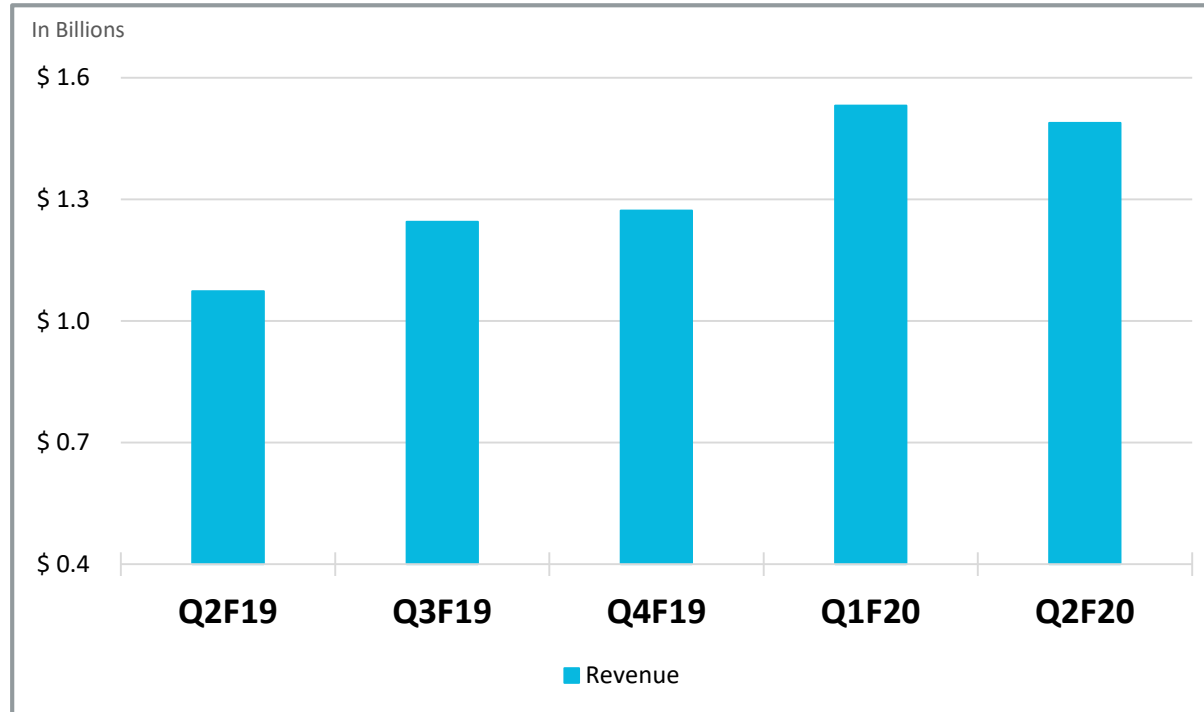
Executive Summary

<h2>Q2F20 RESULTS</h2>	<ul style="list-style-type: none">• Net revenue of \$4.2 billion, up 5% sequentially and flat from the prior-year period• Non-GAAP diluted net earnings per share of \$0.62, up 82% sequentially• Performance reflects strong execution in our product roadmap, success in increasing our hard drive gross margin, and an improving flash environment
<h2>BUSINESS HIGHLIGHTS</h2>	<ul style="list-style-type: none">• Flash<ul style="list-style-type: none">• NVMe-based enterprise SSD revenue grew over 50% QoQ• Continue to diversify our eSSD customer base with additional design wins, including at another major hyperscale customer• Inventory in flash supply chain has largely returned to normal• Hard Drives<ul style="list-style-type: none">• Leading capacity enterprise product line with over 100% YoY exabyte shipment growth, driven by demand for our 14-terabyte drives• Started sampling 18- and 16-terabyte CMR and 20-terabyte SMR energy-assisted drives• Expect revenue shipments of CMR drives in the March quarter
<h2>OUTLOOK</h2>	<ul style="list-style-type: none">• Now expect an accelerated recovery in our flash gross margins in the first half of calendar year 2020, with continued improvement through the calendar year

For reconciliations of GAAP to Non-GAAP financial measures, see the Appendix.

Data Center Devices and Solutions

End Market Trends



Revenue
\$1.5 Billion

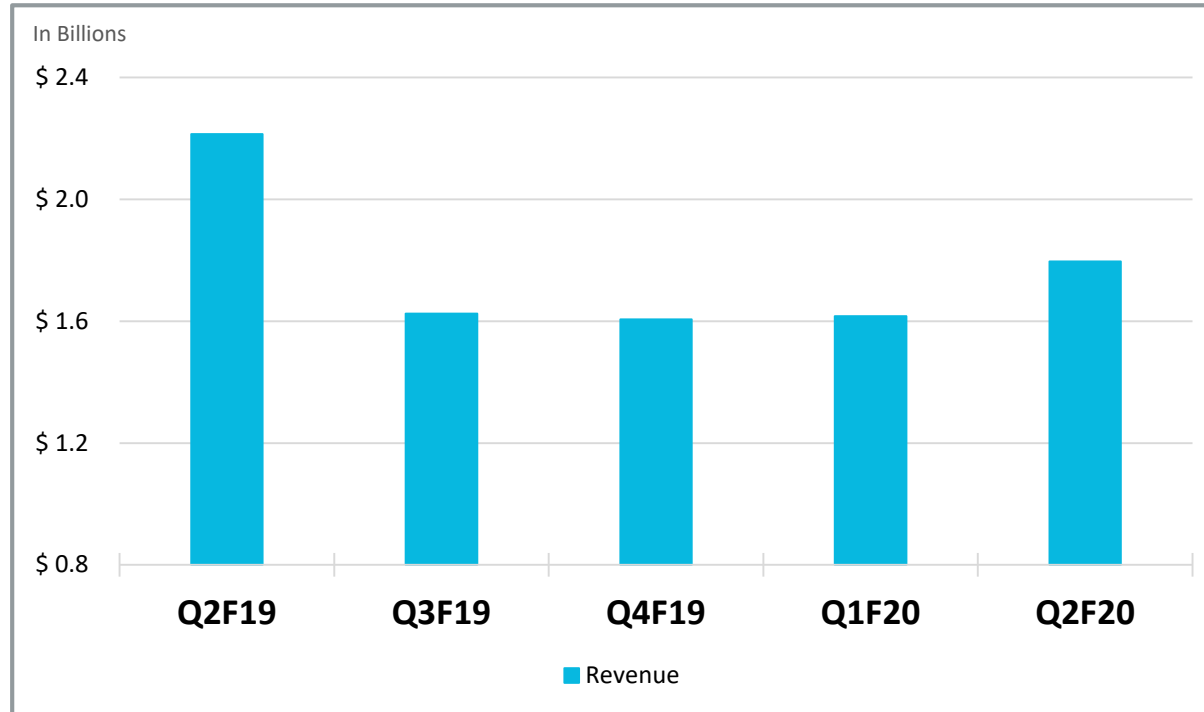
Revenue decreased by \$43 million sequentially as growth in enterprise SSD was offset by a decline in capacity enterprise drives and the impact of our exit from the storage system business.

Key Takeaways

- Our 14-terabyte platform is performing well, and experiencing strong demand for our air-based 10-terabyte drive
- Continuing momentum of NVMe enterprise SSDs at hyperscale and OEM customers
- Revenue shipments of 18- and 16-terabyte drives in the March quarter
- Expect to double our enterprise SSD revenue in calendar year 2020, as we move towards our goal of 20% market share

Client Devices

End Market Trends



Revenue
\$1.8 Billion

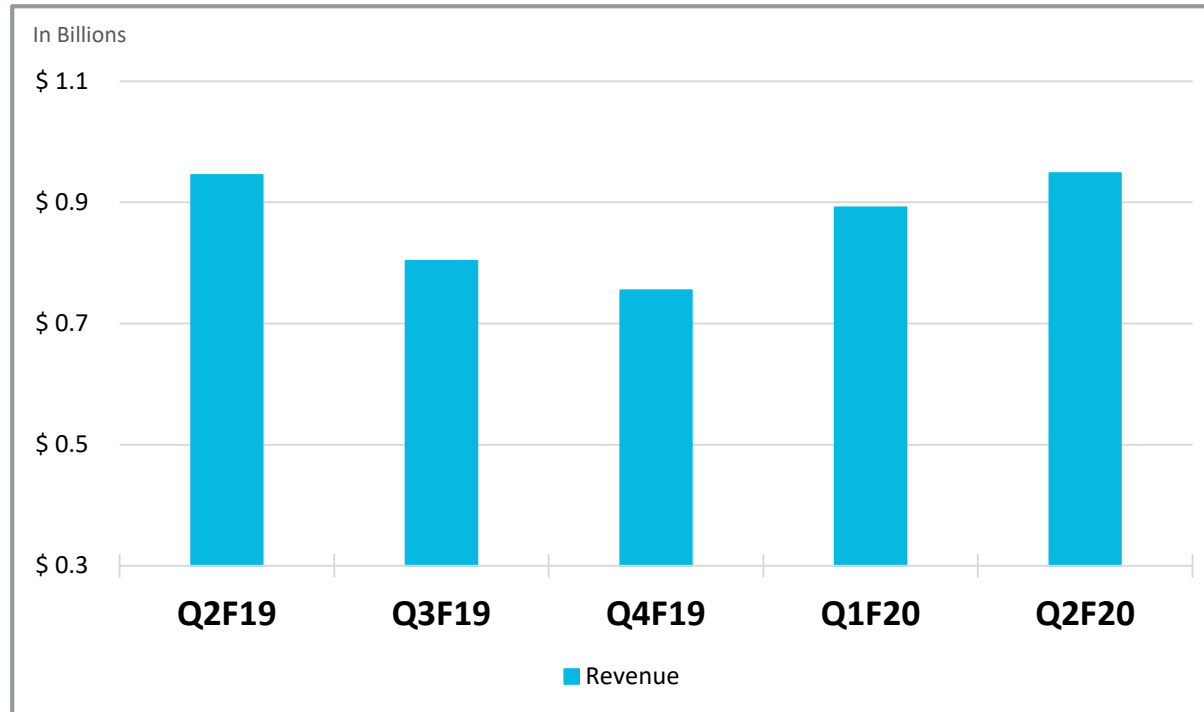
Revenue increased by \$181 million sequentially, due to increased demand for client SSD, Smart Video, Mobility, and desktop hard drives.

Key Takeaways

- Sequential revenue growth in both hard drives and flash
- Flash pricing continues to increase
- Gaming market provides a new, multi-exabyte opportunity this calendar year
- Expect to begin shipments into a new gaming platform in the June quarter

Client Solutions

End Market Trends



Revenue
\$0.9 Billion

Revenue increased by \$56 million sequentially driven primarily by strength in demand for hard drives and external SSDs.

Key Takeaways

- Experienced strong holiday demand for both hard drive and flash solutions
- Strong sequential growth in hard drives and external SSDs
- Continued growth in average unit capacities for both hard drives and flash
- Demonstrated world's highest capacity, pocket-sized, portable SSD and the world's first USB3.2 SSD exclusively for gaming

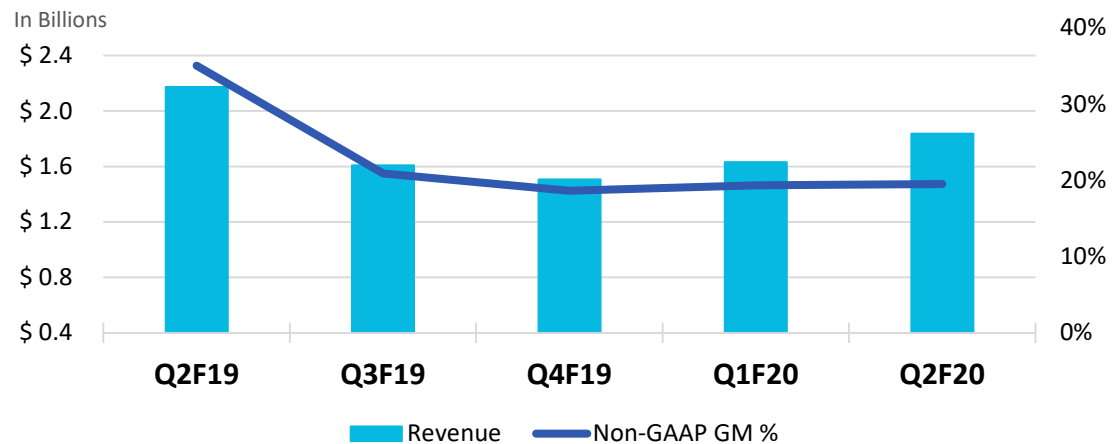
Non-GAAP Financial Results

In millions, except per share amounts	Q2F20	Q1F20	Q2F19	QoQ	YoY
Revenue	\$4,234	\$4,040	\$4,233	5%	0%
Gross Margin %	25.9%	24.8%	31.3%	110 bps	(540 bps)
Operating Expenses	\$765	\$767	\$738	0%	4%
Operating Income	\$333	\$235	\$589	\$98	(\$256)
Interest and Other Expense, net	\$81	\$99	\$93	(\$18)	(\$12)
EPS	\$0.62	\$0.34	\$1.45	\$0.28	(\$0.83)
Operating Cash Flow	\$257	\$253	\$469	\$4	(\$212)
Free Cash Flow	\$377	\$294	\$24	\$83	\$353

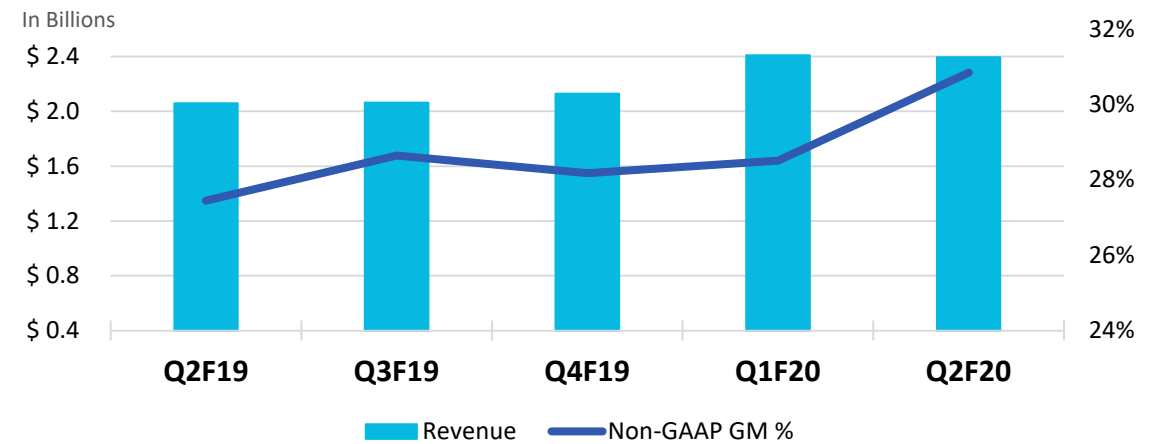
For reconciliations of GAAP to Non-GAAP financial measures, see the Appendix and Quarterly Fact Sheet.

Flash and Hard Drive Metrics

Flash Revenue and Non-GAAP Gross Margin



Hard Drive Revenue and Non-GAAP Gross Margin



Flash

Q2F20 Results

- Bit shipments: up 24% QoQ
- ASP/Gigabyte: down 8% QoQ

CY20 Outlook

- Flash industry supply bit growth estimate: low-30% range YoY

Hard Drive

Q2F20 Results

- Total exabyte shipments: down 1% QoQ
- Average ASP per drive: flat at \$81 QoQ
- Capacity enterprise exabyte shipments: over 100% YoY growth

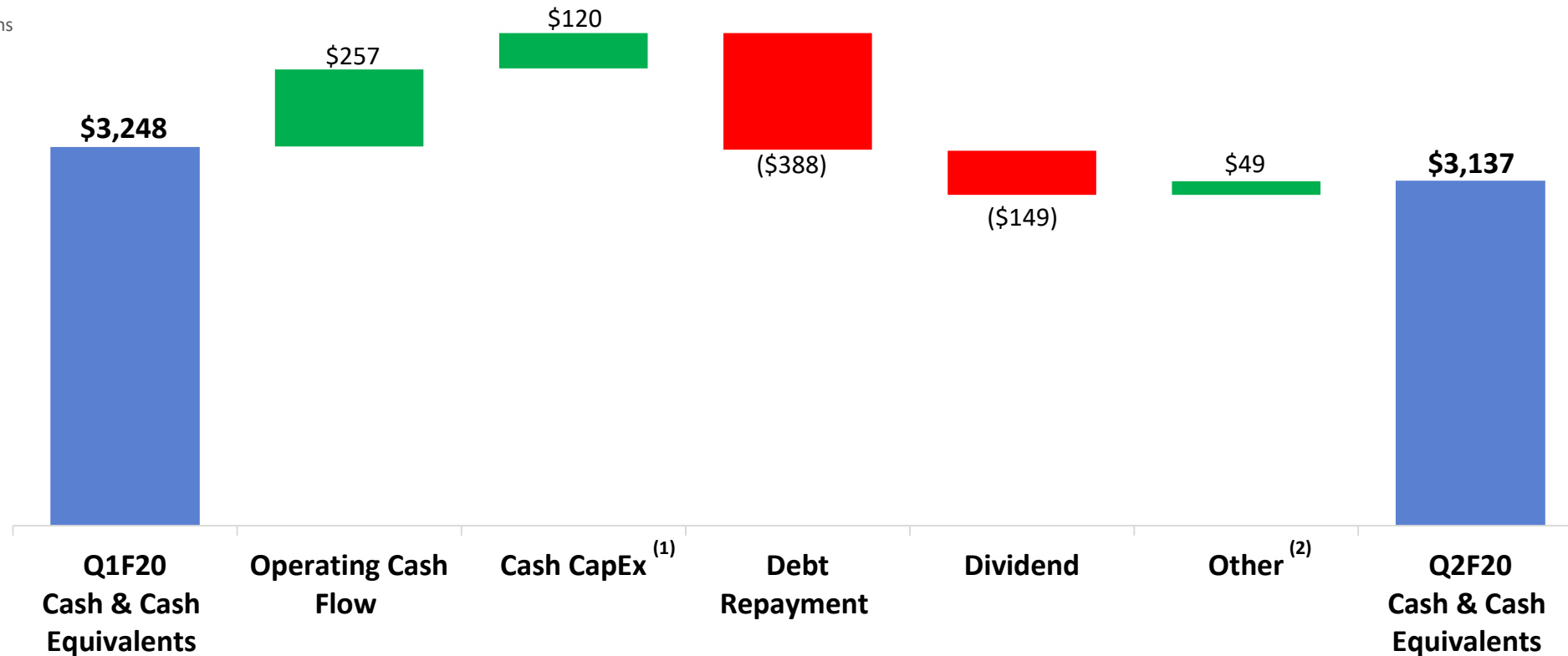
CY20 Outlook

- Capacity enterprise market exabyte growth estimate: mid-30% range YoY

For reconciliations of GAAP to Non-GAAP financial measures, see the Appendix and Quarterly Fact Sheet.

Cash Flow Walk

In Millions



- Debt Repayment includes \$325 million discretionary loan paydown
- Strong liquidity position of \$5.35 billion, including \$2.25 billion undrawn revolver

1. Cash CapEx includes purchases of property, plant and equipment, net, and the activity related to Flash Ventures, net.

2. Other primarily consists of employee stock plans, net.

Capital Expenditure Framework

Cash Capital Expenditures^(A)

$$\begin{matrix} \textcircled{1} & & \textcircled{2} & & \textcircled{3} & & & & \\ \text{HDD CapEx} & + & \text{Flash Non-Fab CapEx} & + & \text{Flash JV Parent Loans}^{(B)} & = & \text{FY20F: } \sim \$0 \end{matrix}$$

Flash Joint Venture Capital Expenditures

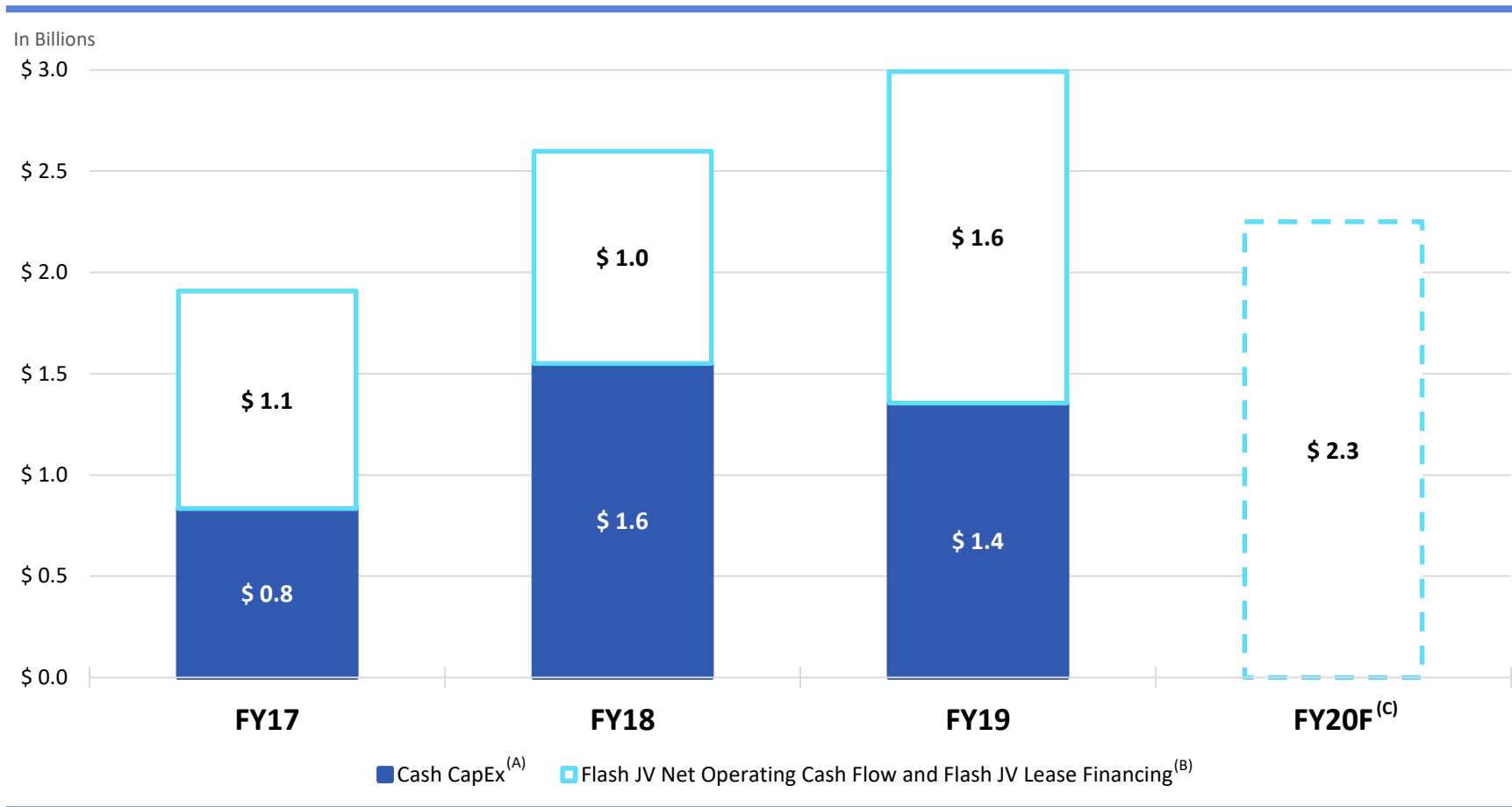
$$\begin{matrix} \textcircled{3} & & \textcircled{4} & & \textcircled{5} \\ \text{Flash JV Parent Loans}^{(B)} & + & \text{Flash JV Net Operating Cash Flow}^{(B)(C)} & + & \text{Flash JV Lease Financing}^{(B)} \end{matrix}$$

Gross Capital Expenditures

$$\begin{matrix} \textcircled{1} & & \textcircled{2} & & \textcircled{3} & & \textcircled{4} & & \textcircled{5} & & & & \\ \text{HDD CapEx} & + & \text{Flash Non-Fab CapEx} & + & \text{Flash JV Parent Loans}^{(B)} & + & \text{Flash JV Net Operating Cash Flow}^{(B)(C)} & + & \text{Flash JV Lease Financing}^{(B)} & = & \text{FY20F: } \$2.0\text{B} - \$2.5\text{B} \end{matrix}$$

- A. Cash Capital Expenditures includes purchases of property, plant and equipment, net, and notes receivable issuances to Flash JV, net.
- B. Flash JV Parent Loans, Flash JV Net Operating Cash Flow, and Flash JV Lease Financing are comprised only of Western Digital's portions.
- C. Flash JV Net Operating Cash Flow is primarily generated from equipment depreciation payments.

Gross Capital Expenditure Trends



A. Cash Capital Expenditures includes purchases of property, plant and equipment, net, and the activity related to Flash Ventures, net, and notes receivable issuances to Flash JV, net.

B. Flash JV Net Operating Cash Flow and Flash JV Lease Financing are comprised only of Western Digital's portions.

C. FY20F: Gross Capital Expenditures assumes mid-point of the guidance range of \$2.0 billion - \$2.5 billion, of which Cash Capital Expenditures = ~\$0.

Business Outlook

Q3F20 Guidance

	GAAP ⁽¹⁾	NON-GAAP ⁽¹⁾
Revenue	\$4.1B - \$4.3B	\$4.1B - \$4.3B
Gross Margin	24.5% - 25.5%	28.5% - 29.5%
Operating Expenses	\$850M - \$870M	\$740M - \$760M
Interest and Other Expense, Net	\$85M - \$90M	\$80M - \$85M
Tax Rate	N/A	~ 25% - 27% ⁽²⁾
EPS - Diluted	N/A	\$0.85 - \$1.05
Share Count - Diluted	~ 305M	~ 305M

1. Non-GAAP gross margin guidance excludes amortization of acquired intangible assets, stock-based compensation expense, and charges related to cost saving initiatives totaling approximately \$150 million to \$170 million. The company's non-GAAP operating expenses guidance excludes amortization of acquired intangible assets; stock-based compensation expense; employee termination, asset impairment and other charges; and charges related to cost saving initiatives totaling approximately \$100 million to \$120 million. The company's non-GAAP interest and other expense guidance excludes approximately \$5 million of convertible debt activity. In the aggregate, non-GAAP diluted earnings per share guidance excludes these items totaling \$255 million to \$295 million. The timing and amount of these charges excluded from non-GAAP gross margin, non-GAAP operating expenses, non-GAAP interest and other expense, net and non-GAAP diluted earnings per share cannot be further allocated or quantified with certainty. Additionally, the timing and amount of additional charges the company excludes from its non-GAAP tax rate and non-GAAP diluted earnings per share are dependent on the timing and determination of certain actions and cannot be reasonably predicted. Accordingly, full reconciliations of non-GAAP gross margin, non-GAAP operating expenses, non-GAAP interest and other expense, non-GAAP tax rate and non-GAAP diluted earnings per share to the most directly comparable GAAP financial measures (gross margin, operating expenses, interest and other expense, tax rate and diluted earnings per share, respectively) are not available without unreasonable effort.
2. The non-GAAP tax rates provided are based on a percentage of non-GAAP pre-tax income.

Quarterly Fact Sheet

In millions, except Average Selling Price (ASP), Percentages, and working capital related metrics	Q2F19	Q3F19	Q4F19	Q1F20	Q2F20
REVENUE					
Client Devices ¹	\$ 2,214	\$ 1,625	\$ 1,606	\$ 1,616	\$ 1,797
Client Solutions ¹	945	804	755	892	948
Data Center Devices & Solutions ¹	<u>1,074</u>	<u>1,245</u>	<u>1,273</u>	<u>1,532</u>	<u>1,489</u>
Total Revenue	\$ 4,233	\$ 3,674	\$ 3,634	\$ 4,040	\$ 4,234
EXABYTE METRICS					
Q/Q Change in HDD Exabytes Sold ²	(17%)	13%	14%	23%	(1%)
Q/Q Change in Flash Exabytes Sold ²	<u>5%</u>	<u>(5%)</u>	<u>(1%)</u>	<u>9%</u>	<u>24%</u>
Q/Q Change in Total Exabytes Sold²	(15%)	11%	12%	22%	1%
TECHNOLOGY					
HDD Revenue	\$ 2,060	\$ 2,064	\$ 2,128	\$ 2,408	\$ 2,396
Flash Revenue	\$ 2,173	\$ 1,610	\$ 1,506	\$ 1,632	\$ 1,838
HDD Non-GAAP Gross Margin ³	27.4%	28.6%	28.1%	28.5%	30.8%
Flash Non-GAAP Gross Margin ³	35.1%	20.9%	18.7%	19.3%	19.5%
Total Non-GAAP Gross Margin ³	31.3%	25.3%	24.2%	24.8%	25.9%
CASH					
Cash and Cash Equivalents	\$ 4,013	\$ 3,682	\$ 3,455	\$ 3,248	\$ 3,137
Available-for-Sale (AFS) Securities	<u>117</u>	<u>119</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Cash, Cash Equivalents, and AFS Securities	\$ 4,130	\$ 3,801	\$ 3,455	\$ 3,248	\$ 3,137
CASH FLOWS					
Cash Flows provided by Operating Activities	\$ 469	\$ 204	\$ 169	\$ 253	\$ 257
Purchases of Property, Plant and Equipment, net	(220)	(222)	(38)	(145)	(160)
Activity Related to Flash Ventures, net	<u>(225)</u>	<u>(92)</u>	<u>(310)</u>	<u>186</u>	<u>280</u>
Free Cash Flow⁴	\$ 24	(\$ 110)	(\$ 179)	\$ 294	\$ 377
WORKING CAPITAL RELATED					
Days Sales Outstanding	37	30	30	35	38
Days Inventory Outstanding	98	101	94	98	86
Days Payables Outstanding	<u>(64)</u>	<u>(55)</u>	<u>(54)</u>	<u>(67)</u>	<u>(58)</u>
Cash Conversion Cycle	71	76	70	66	66
FLASH METRICS					
Q/Q Change in ASP/Gigabytes ²	(18%)	(23%)	(6%)	0%	(8%)
HDD METRICS					
Client Compute Units ⁵	14.0	12.9	12.3	12.9	11.8
Non-Compute Units ⁶	11.1	9.3	9.2	8.9	10.3
Data Center Units ⁷	<u>5.1</u>	<u>5.6</u>	<u>6.2</u>	<u>7.5</u>	<u>7.1</u>
Total HDD Units⁸	30.2	27.8	27.7	29.3	29.2
HDD ASP⁹	\$ 67	\$ 73	\$ 75	\$ 81	\$ 81

Quarterly Fact Sheet Footnotes

FORMULAS

Days Sales Outstanding (DSO) = Accounts Receivable / (Revenue / # of days in quarter)

Days Inventory Outstanding (DIO) = Inventories / (Cost of Revenue / # of days in quarter)

Days Payables Outstanding (DPO) = Accounts Payable (including Accounts Payable to Related Parties) / (Cost of Revenue / # of days in quarter)

Cash Conversion Cycle = DSO + DIO – DPO

FOOTNOTES

1. Client Devices is comprised of notebook and desktop HDD, consumer electronics HDD, client SSD, embedded, wafer sales and licensing and royalties. Client Solutions is comprised of branded HDD, branded flash, removables and licensing and royalties. Data Center Devices and Solutions is comprised of enterprise HDD, enterprise SSD, data center software, data center solutions and licensing and royalties.
2. Excludes licensing, royalties, and non-memory products.
3. Refer to the GAAP to non-GAAP reconciliation slides within the Appendix for further details.
4. Free cash flow is a non-GAAP financial measure defined as cash flows provided by operating activities less purchases of property, plant and equipment, net of proceeds from sales of property, plant and equipment, and the activity related to Flash Ventures, net. We consider free cash flow to be useful as an indicator of our overall liquidity, as the amount of free cash flow generated in any period is representative of cash that is available for strategic opportunities or other business purposes including, among others, investing in the company's business, making strategic acquisitions, strengthening the balance sheet, repaying debt, paying dividends and repurchasing stock. Free cash flow is not an alternative for measures prepared in accordance with GAAP and may be different from non-GAAP free cash flow measures used by other companies.
5. Client compute products consist primarily of desktop and notebook HDDs, excluding those sold through retail channels.
6. Non-compute products consist of retail channel and consumer electronics HDDs.
7. Data center products consist of enterprise HDDs (high-capacity and performance) and enterprise systems.
8. HDD Unit volume excludes data storage systems and media.
9. HDD ASP is calculated by dividing HDD revenue by HDD units. Data storage systems are excluded from this calculation, as data storage systems ASP is measured on a per system basis rather than a per drive basis.

Debt Tranches and Interest Rates

Debt	Base Rate	Maturity	Principal Balance Outstanding as of 1/3/2020 (in millions)	Applicable Rates ^A
Convertible Debt Due 2020 ^B	0.500%	October 15, 2020	\$ 35	0.500%
Revolver drawn ^{C, D}	L+150	February 27, 2023	0	3.263%
Term Loan A-1 ^D	L+150	February 27, 2023	4,708	3.451% ^E
Term Loan B-4 ^D	L+175	April 29, 2023	1,843	3.513%
Convertible Debt Due 2024 ^F	1.500%	February 1, 2024	1,100	1.500%
Sr. Unsecured Notes Due 2026 ^G	4.750%	February 15, 2026	2,300	4.750%
TOTAL			\$ 9,986	3.536%^H

A. All-in applicable rates as of January 3, 2020. Applicable spread for Term Loan A-1 and Revolver over LIBOR based on credit ratings as of January 3, 2020.

B. Debt assumed in connection with the acquisition of SanDisk Corporation in May 2016.

C. Revolver capacity: \$2.25 billion, none of which was drawn as of January 3, 2020.

D. Term Loan A-1, Term Loan B-4, and Revolver have a LIBOR floor of 0bps.

E. Reflects impact of the interest rate swaps that effectively fix LIBOR on \$2 billion of floating-rate debt at 2.21% through May 2020 and 2.60% through February 2023.

F. Initial conversion price of \$121.91 per share. Notes are callable beginning February 5, 2021.

G. Notes are callable beginning November 15, 2025.

H. Weighted average interest rate, including impact of interest rate swaps, based on principal balances outstanding as of January 3, 2020.



Western Digital[®]

Appendix

GAAP to Non-GAAP Reconciliation

In millions; unaudited	Q2F19	Q1F20	Q2F20
GAAP GROSS PROFIT	\$ 1,044	\$ 758	\$ 935
Amortization of acquired intangible assets	215	164	157
Stock-based compensation expense	13	12	13
Charges related to cost saving initiatives	6	-	1
Manufacturing underutilization charges	49	-	-
Power outage charges	-	68	-
Other	-	-	(8)
NON-GAAP GROSS PROFIT	\$ 1,327	\$ 1,002	\$ 1,098
GAAP OPERATING EXPENSES	\$ 868	\$ 887	\$ 885
Amortization of acquired intangible assets	(41)	(41)	(39)
Stock-based compensation expense	(66)	(65)	(64)
Employee termination, asset impairment and other charges	(20)	(8)	(9)
Charges related to acquisitions and dispositions	-	(5)	(2)
Charges related to cost saving initiatives	(2)	(1)	(6)
Other	(1)	-	-
NON-GAAP OPERATING EXPENSES	\$ 738	\$ 767	\$ 765
GAAP OPERATING INCOME (LOSS)	\$ 176	(\$ 129)	\$ 50
Gross profit adjustments	283	244	163
Operating expense adjustments	130	120	120
NON-GAAP OPERATING INCOME	\$ 589	\$ 235	\$ 333
GAAP INTEREST AND OTHER EXPENSE, NET	(\$ 95)	(\$ 108)	(\$ 90)
Convertible debt activity	6	7	7
Other	(4)	2	2
NON-GAAP INTEREST AND OTHER EXPENSE, NET	(\$ 93)	(\$ 99)	(\$ 81)

GAAP to Non-GAAP Reconciliation

In millions, except per share amounts; unaudited	Q2F19	Q1F20	Q2F20
GAAP NET LOSS	(\$ 487)	(\$ 276)	(\$ 139)
Amortization of acquired intangible assets	256	205	196
Stock-based compensation expense	79	77	77
Employee termination, asset impairment and other charges	20	8	9
Charges related to acquisitions and dispositions	-	5	2
Charges related to cost saving initiatives	8	1	7
Manufacturing underutilization charges	49	-	-
Power outage charges	-	68	-
Convertible debt activity	6	7	7
Other	(3)	2	(6)
Income tax adjustments	496	4	34
NON-GAAP NET INCOME	\$ 424	\$ 101	\$ 187
DILUTED INCOME (LOSS) PER COMMON SHARE			
GAAP	(\$ 1.68)	(\$ 0.93)	(\$ 0.47)
Non-GAAP	\$ 1.45	\$ 0.34	\$ 0.62
DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING			
GAAP	290	296	298
Non-GAAP	293	300	300

GAAP to Non-GAAP Reconciliation

In millions, except percentages; unaudited	Q2F19	Q3F19	Q4F19	Q1F20	Q2F20
GROSS PROFIT	\$ 1,044	\$ 579	\$ 465	\$ 758	\$ 935
Amortization of acquired intangible assets	215	188	166	164	157
Stock-based compensation expense	13	13	11	12	13
Charges related to cost saving initiatives	6	-	4	-	1
Manufacturing underutilization charges	49	148	67	-	-
Power outage charges	-	-	145	68	-
Other	-	-	22	-	(8)
NON-GAAP GROSS PROFIT	\$ 1,327	\$ 928	\$ 880	\$ 1,002	\$ 1,098
BREAKDOWN OF NON-GAAP GROSS PROFIT BY PRODUCT					
HDD	\$ 565	\$ 591	\$ 599	\$ 687	\$ 739
Flash	762	337	281	315	359
TOTAL NON-GAAP GROSS PROFIT	\$ 1,327	\$ 928	\$ 880	\$ 1,002	\$ 1,098
BREAKDOWN OF REVENUE BY PRODUCT					
HDD Revenue	\$ 2,060	\$ 2,064	\$ 2,128	\$ 2,408	\$ 2,396
Flash Revenue	2,173	1,610	1,506	1,632	1,838
TOTAL REVENUE	\$ 4,233	\$ 3,674	\$ 3,634	\$ 4,040	\$ 4,234
Consolidated GAAP gross margin ¹	24.7%	15.8%	12.8%	18.8%	22.1%
Consolidated non-GAAP gross margin ²	31.3%	25.3%	24.2%	24.8%	25.9%
Non-GAAP HDD gross margin ³	27.4%	28.6%	28.1%	28.5%	30.8%
Non-GAAP Flash gross margin ⁴	35.1%	20.9%	18.7%	19.3%	19.5%

1. Consolidated GAAP gross margin is calculated by dividing gross profit by total revenue.
2. Consolidated non-GAAP gross margin is calculated by dividing total non-GAAP gross profit by total revenue.
3. Non-GAAP HDD gross margin is calculated by dividing the portion of non-GAAP gross profit relating to the Company's HDD products by HDD revenue.
4. Non-GAAP Flash gross margin is calculated by dividing the portion of non-GAAP gross profit relating to the Company's Flash products by Flash revenue.

Footnotes for GAAP to Non-GAAP Reconciliation

This presentation contains the following financial measures that are not in accordance with U.S. generally accepted accounting principles (“GAAP”): non-GAAP gross profit; non-GAAP gross margin; non-GAAP operating expenses; non-GAAP operating income; non-GAAP interest and other expense, net; non-GAAP net income; and non-GAAP diluted income per common share (“Non-GAAP measures”). These Non-GAAP measures are not in accordance with, or an alternative for, measures prepared in accordance with GAAP and may be different from Non-GAAP measures used by other companies. The company believes the presentation of these Non-GAAP measures, when shown in conjunction with the corresponding GAAP measures, provides useful information to investors for measuring the company’s earnings performance and comparing it against prior periods. Specifically, the company believes these Non-GAAP measures provide useful information to both management and investors as they exclude certain expenses, gains and losses that the company believes are not indicative of its core operating results or because they are consistent with the financial models and estimates published by many analysts who follow the company and its peers. As discussed further below, these Non-GAAP measures exclude the amortization of acquired intangible assets, stock-based compensation expense, employee termination, asset impairment and other charges, charges related to acquisitions and dispositions, charges related to cost saving initiatives, manufacturing underutilization charges, convertible debt activity, other adjustments, and income tax adjustments, and the company believes these measures along with the related reconciliations to the GAAP measures provide additional detail and comparability for assessing the company’s results. These Non-GAAP measures are some of the primary indicators management uses for assessing the company’s performance and planning and forecasting future periods. These measures should be considered in addition to results prepared in accordance with GAAP, but should not be considered a substitute for, or superior to, GAAP results. As described above, the company excludes the following items from its Non-GAAP measures:

Amortization of acquired intangible assets. The company incurs expenses from the amortization of acquired intangible assets over their economic lives. Such charges are significantly impacted by the timing and magnitude of the company’s acquisitions and any related impairment charges.

Stock-based compensation expense. Because of the variety of equity awards used by companies, the varying methodologies for determining stock-based compensation expense, the subjective assumptions involved in those determinations, and the volatility in valuations that can be driven by market conditions outside the company’s control, the company believes excluding stock-based compensation expense enhances the ability of management and investors to understand and assess the underlying performance of its business over time and compare it against the company’s peers, a majority of whom also exclude stock-based compensation from their Non-GAAP results.

Employee termination, asset impairment and other charges. From time-to-time, in order to realign the company’s operations with anticipated market demand or to achieve cost synergies from the integration of acquisitions, the company may terminate employees and/or restructure its operations. From time-to-time, the company may also incur charges from the impairment of intangible assets and other long-lived assets. These charges (including any reversals of charges recorded in prior periods) are inconsistent in amount and frequency, and the company believes are not indicative of the underlying performance of its business.

Charges related to acquisitions and dispositions. In connection with the company’s business combinations or dispositions, the company incurs expenses which it would not have otherwise incurred as part of its business operations. These expenses include third-party professional service and legal fees, third-party integration services, severance costs, non-cash adjustments to the fair value of acquired inventory, contract termination costs, and retention bonuses. The company may also experience other accounting impacts in connection with these transactions. These charges and impacts are related to acquisitions and dispositions, are inconsistent in amount and frequency, and the company believes are not indicative of the underlying performance of its business.

Charges related to cost saving initiatives. In connection with the transformation of the company’s business, the company has incurred charges related to cost saving initiatives which do not qualify for special accounting treatment as exit or disposal activities. These charges, which the company believes are not indicative of the underlying performance of its business, primarily relate to costs associated with rationalizing the company’s channel partners or vendors, transforming the company’s information systems infrastructure, integrating the company’s product roadmap, and accelerated depreciation of assets.

Manufacturing underutilization charges. In response to flash business conditions, the company temporarily reduced its wafer starts during fiscal 2019 at its flash-based memory manufacturing facilities operated through its strategic partnership with Kioxia Corporation. The temporary abnormal reduction in output resulted in flash manufacturing underutilization charges which were expensed as incurred. These charges are consistent in amount and frequency, and the company believes these charges are not part of the ongoing operation of its business.

Power outage charges. In June 2019, an unexpected power outage incident occurred at the flash-based memory manufacturing facilities operated through the company’s strategic partnership with Kioxia Corporation in Yokkaichi, Japan. The power outage incident resulted in the write-off of damaged inventory and unabsorbed manufacturing overhead costs which are expensed as incurred. These charges are inconsistent in amount and frequency, and the company believes these charges are not part of the ongoing production operation of its business.

Convertible debt activity. The company excludes non-cash economic interest expense associated with its convertible notes. These charges do not reflect the company’s operating results, and the company believes are not indicative of the underlying performance of its business.

Other adjustments. From time-to-time, the company sells or impairs investments or other assets which are not considered necessary to its business operations, or incurs other charges or gains that the company believes are not a part of the ongoing operation of its business. The resulting expense or benefit is inconsistent in amount and frequency.

Income tax adjustments. Income tax adjustments include the difference between income taxes based on a forecasted annual Non-GAAP tax rate and a forecasted annual GAAP tax rate as a result of the timing of certain Non-GAAP pre-tax adjustments. The income tax adjustments include the company’s final adjustments for the tax effects of the Tax Cuts and Jobs Act allowed within the one-year measurement period that ended on December 22, 2018, as well as estimates related to the current status of the rules and regulations governing the transition to the Tax Cuts and Jobs Act. These adjustments are excluded because they are infrequent and the company believes that they are not indicative of the underlying performance of its business.