

# Western Digital: Creating Value in the Evolving World of Storage

NASDAQ OMX 29<sup>th</sup> Investor Program

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EVP & CFO, Western Digital Corp.

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## SAFE HARBOR

# Forward-Looking Statements

These presentations contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements concerning growth opportunities in the storage industry, including growth in units shipped, areal density and content stored, our expected financial results, our business model and financial goals and our capital allocation strategy. These forward-looking statements are based on management's current expectations and are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the forward-looking statements, including the impact of continued uncertainty and volatility in global economic conditions; supply and demand conditions in the hard drive industry; uncertainties concerning the availability and cost of commodity materials and specialized product components; actions by competitors; unexpected advances in competing technologies; uncertainties related to the development and introduction of products based on new technologies and expansion into new data storage markets; business conditions and growth in the various hard drive markets; pricing trends and fluctuations in average selling prices; and compliance with regulatory conditions imposed on us by the Chinese Ministry of Commerce. More information about the other risks and uncertainties that could affect our business are listed in our filings with the Securities and Exchange Commission (the "SEC") and available on the SEC's website at [www.sec.gov](http://www.sec.gov), including our Annual Report on Form 10-Q filed with the SEC on November 2, 2012, to which your attention is directed.

In addition, our long-term financial goals included in this presentation are based upon a variety of estimates and assumptions which may not be realized and, in addition to the risks identified above, are inherently subject to business, economic, competitive, industry, regulatory, market and financial uncertainties, many of which are beyond our control. There can be no assurance that the assumptions made in preparing our long-term financial goals will prove accurate or will be achieved. The assumptions our management used as a basis for the long-term financial goals are not facts and should not be relied upon as being necessarily indicative of future results, and investors are cautioned not to place undue reliance on these long-term financial goals.

The forward-looking statements, including the long-term financial goals included in this presentation, speak only as of the date hereof. We do not intend, and we undertake no duty, to update these forward-looking statements to reflect subsequent events or circumstances; however, we may update our business outlook or long-term financial goals or any portion thereof at any time in our discretion.

## TABLE OF CONTENT

# Agenda

- Company Overview
- Storage Market Trends
- Strategic Direction
- Driving Shareholder Value

# Company Overview



## WDC PROFILE

# A Leader in Storage Solutions



- Headquartered in Irvine, California
- Two independent subsidiaries: WD and HGST
- Deep storage industry roots at both subsidiaries: More than 6,000 active patents worldwide
- 10 years of consistent profitable growth, with revenues up 19% and earnings per share up 34% on a compounded annual growth rate basis
- Approximately 96,000 employees worldwide
- \$3.5B cash; \$2.1B debt as of FY'13 Q1
- Fiscal year 2012 revenue \$12.5 billion, operating income \$1.8 billion

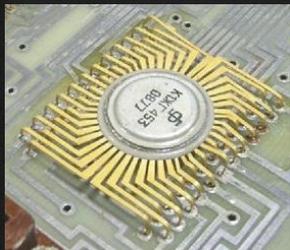
## 50 YEARS OF EVOLUTION

# Building Industry Leadership by Driving Change



1970-1979

Semiconductor

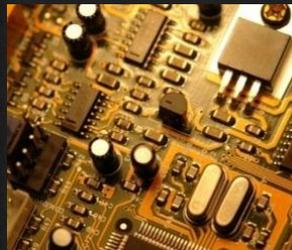


Chips



1980-1989

Drivers / Firmware



Boards



1990-1999

Magnetics /  
Mechanics



HDDs



2000-2009

Industrial Design /  
User Interface / Apps



Products



2010-2019

Innovation  
Market Making



Solutions

THE LAST 10 YEARS

# Execution & Strategic Investments

2002

Customer Delight

2012



Desktop  
Strong Base



Operational  
Efficiency



Laptop  
Wave



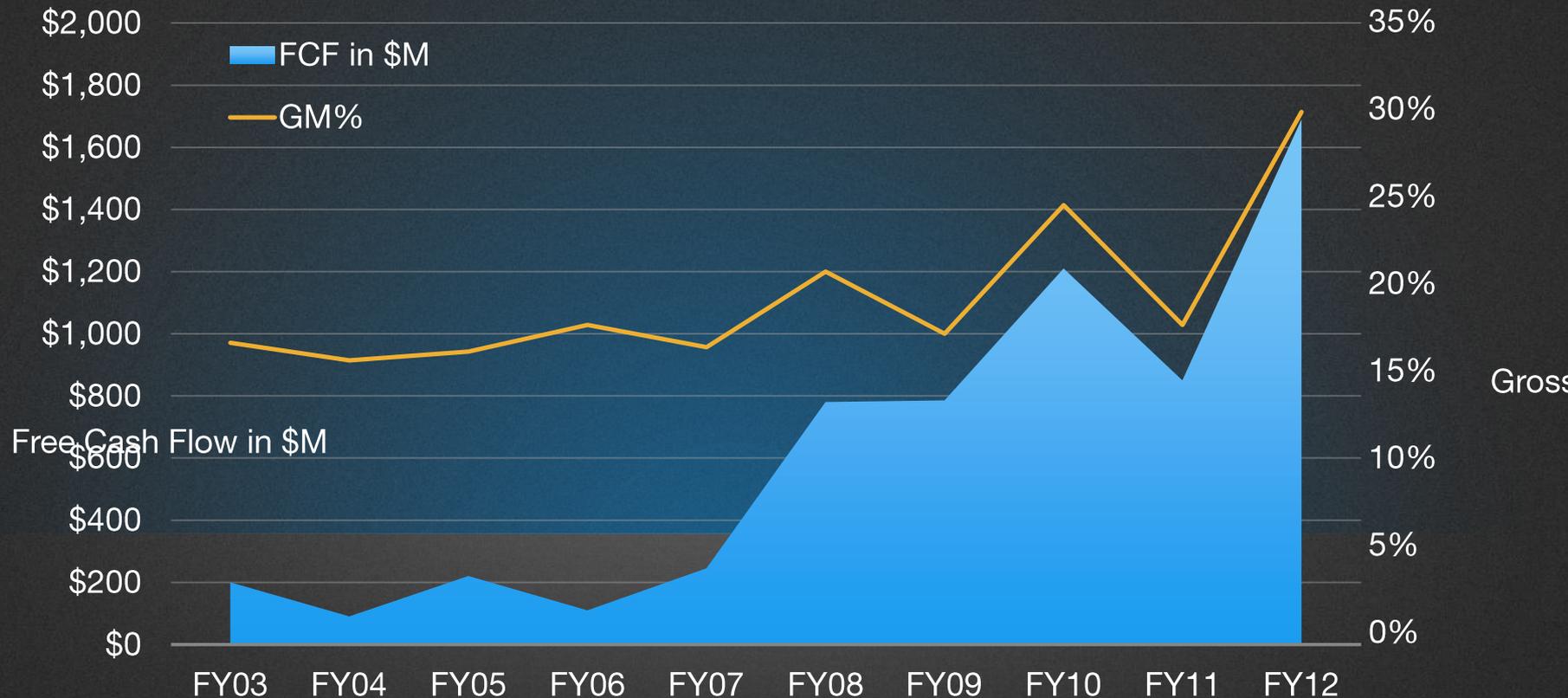
Personal  
Storage

**HGST**  
a Western Digital company

HGST Capstone  
& Springboard

## 10 YEAR HISTORY

# Cost Leadership + Diversification + Strategic Acquisitions = Profitable Growth

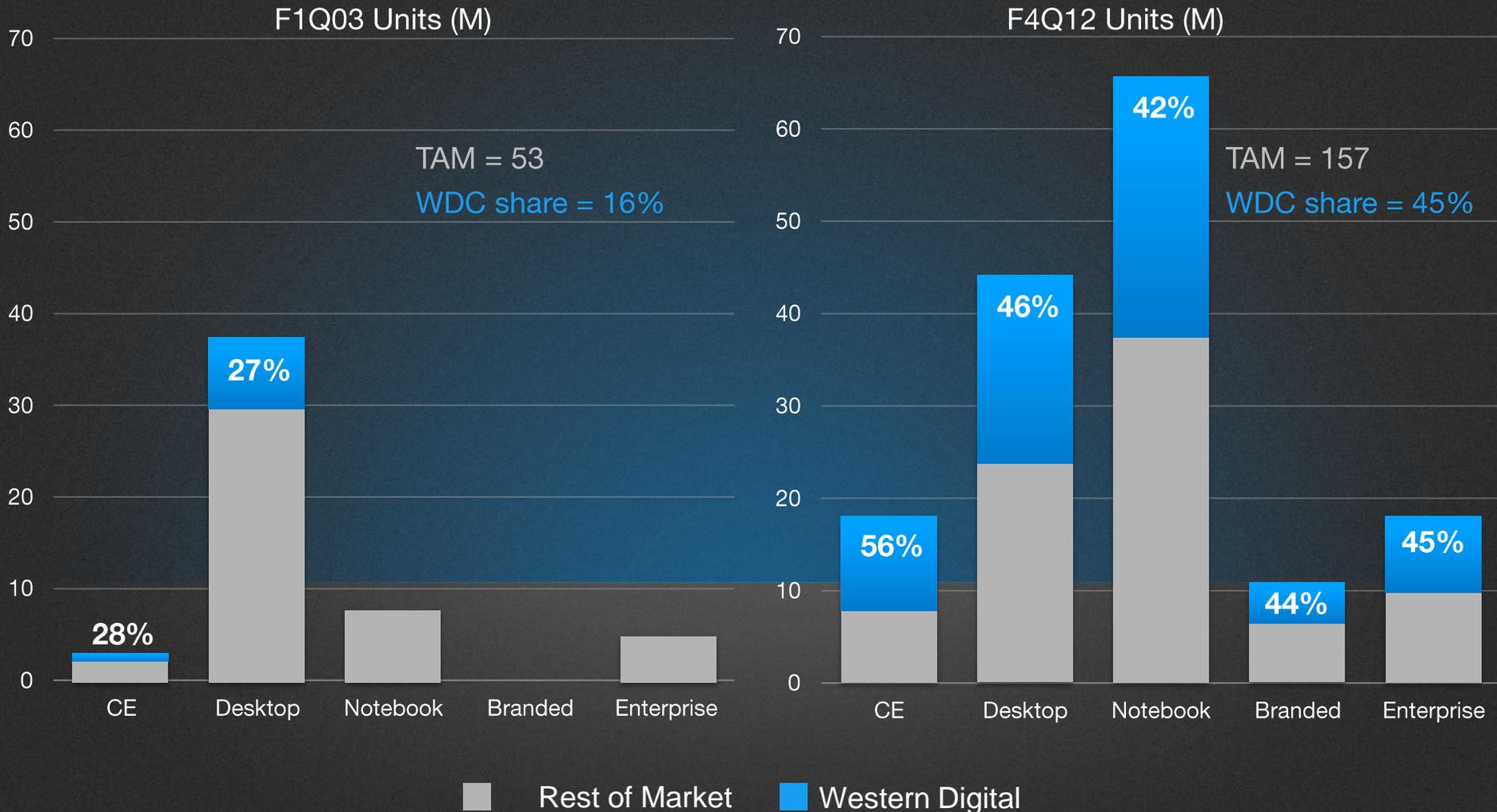


Note: FY12 excludes the effect to free cash flow of the \$585M of assumed debt as a result of the HGST acquisition on March 8, 2012.

Free cash flow is a non-GAAP financial measure defined as cash flows from operations less capital expenditures. A reconciliation of cash flow from operations to free cash flows for the periods presented is set forth in the Appendix

## Business Segment Trends

# Quality + Portfolio = Customer Preference

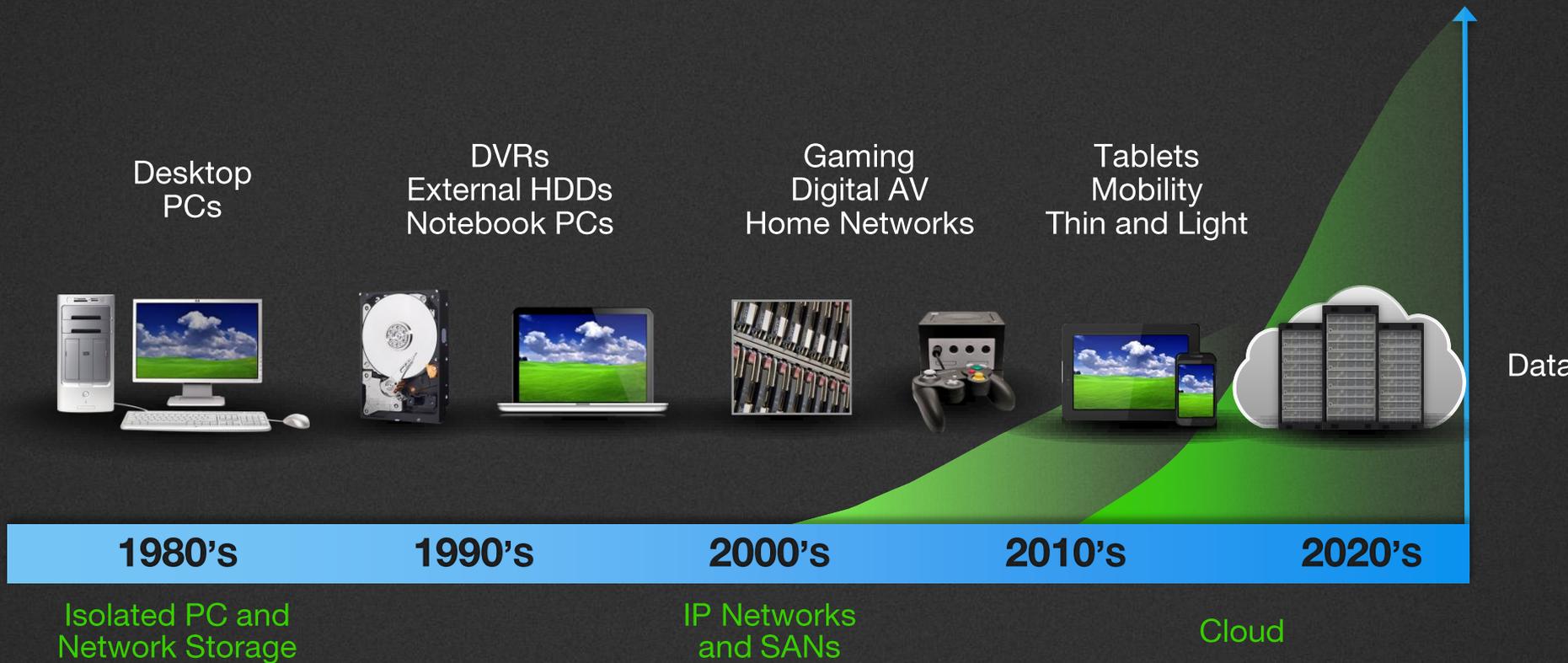


# Storage Market Trends



## HDDs: AT THE HEART OF INNOVATION

# Storage Enabling Progress



Create | Manage | Experience | Preserve

# MARKETS

## Storage Demand Drivers



Homes



People



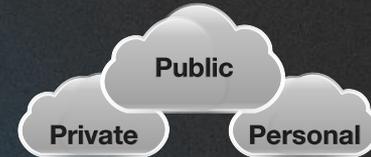
GDP



Devices



Networks



Datacenters

Developed

0.5B

1.2B

\$45T

218 EB\*

369 EB\*

333 EB\*

Developing

1.3B

5.8B

\$25T

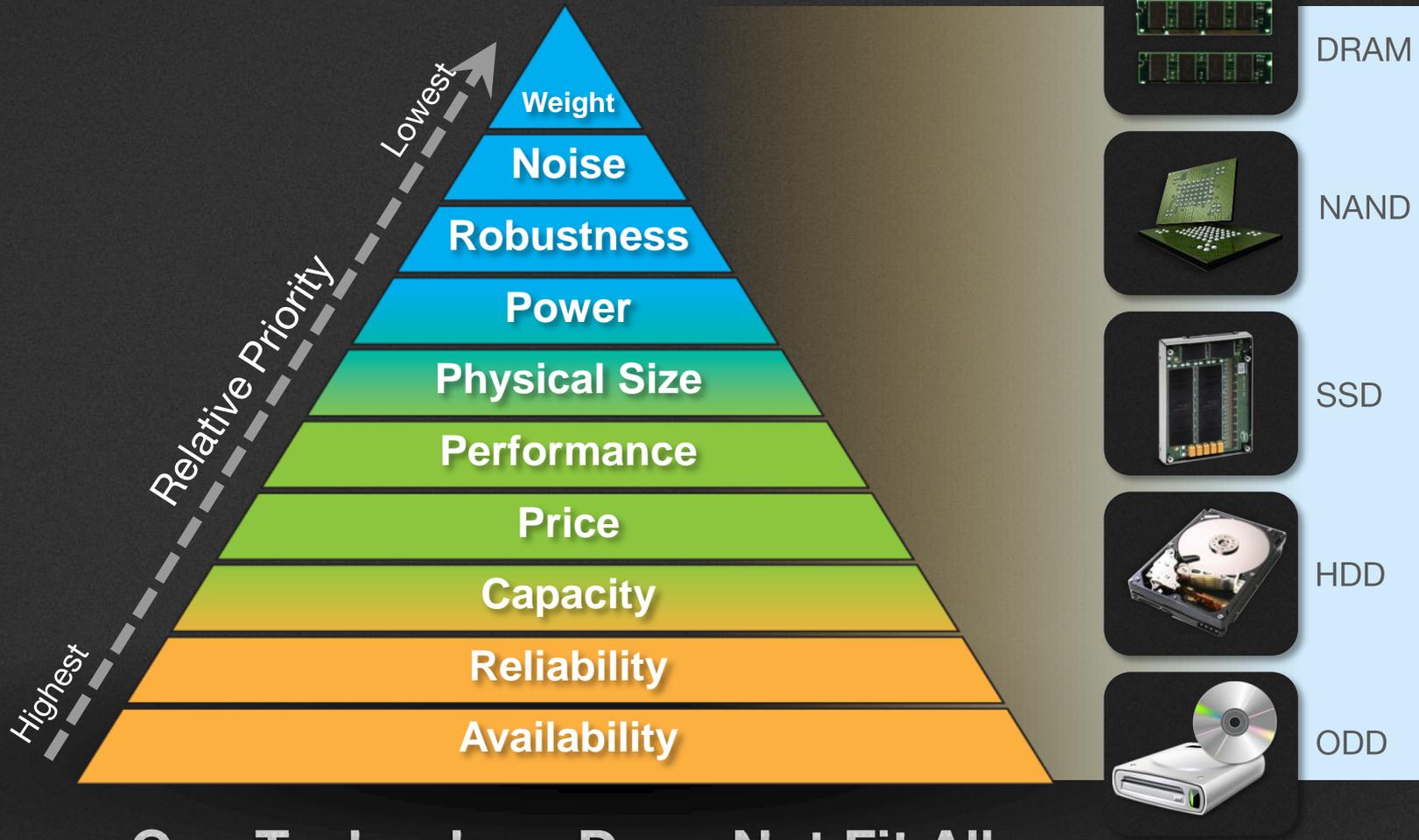
\* CY11 Exabytes

Source: Western Digital Analysis

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## CUSTOMER PRIORITIES

# The Storage Hierarchy of Needs

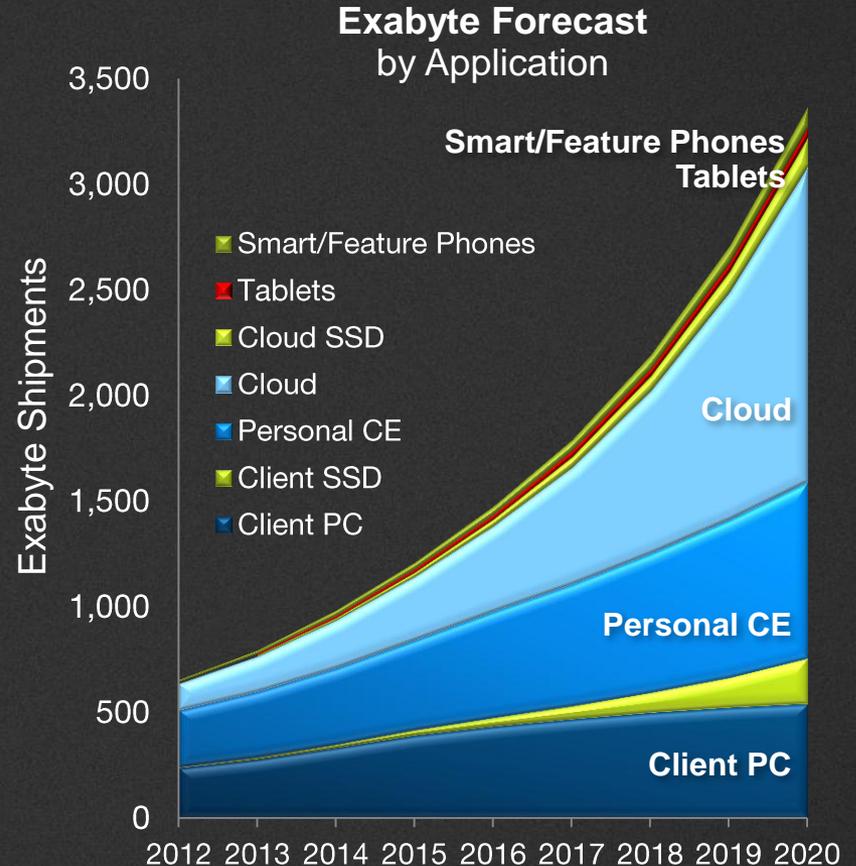
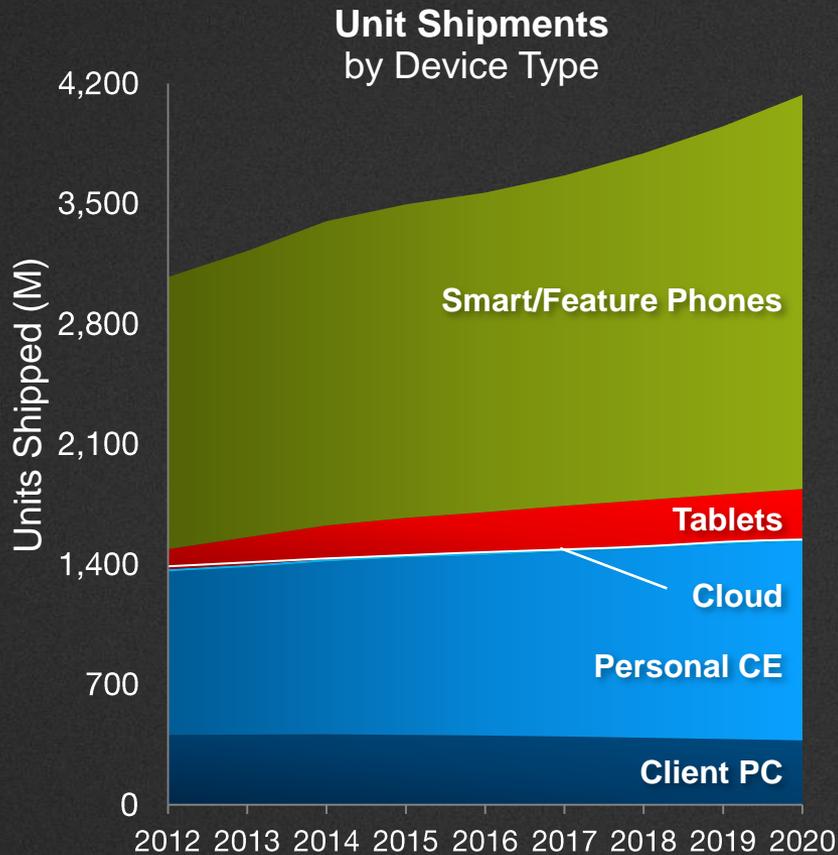


**One Technology Does Not Fit All**

Source: John Squires – Founder and VP Engineering of Conner Peripherals

2012–2020

# Storage Trends



**HDDs are the primary storage solution and will continue to adapt to the evolving ecosystem**

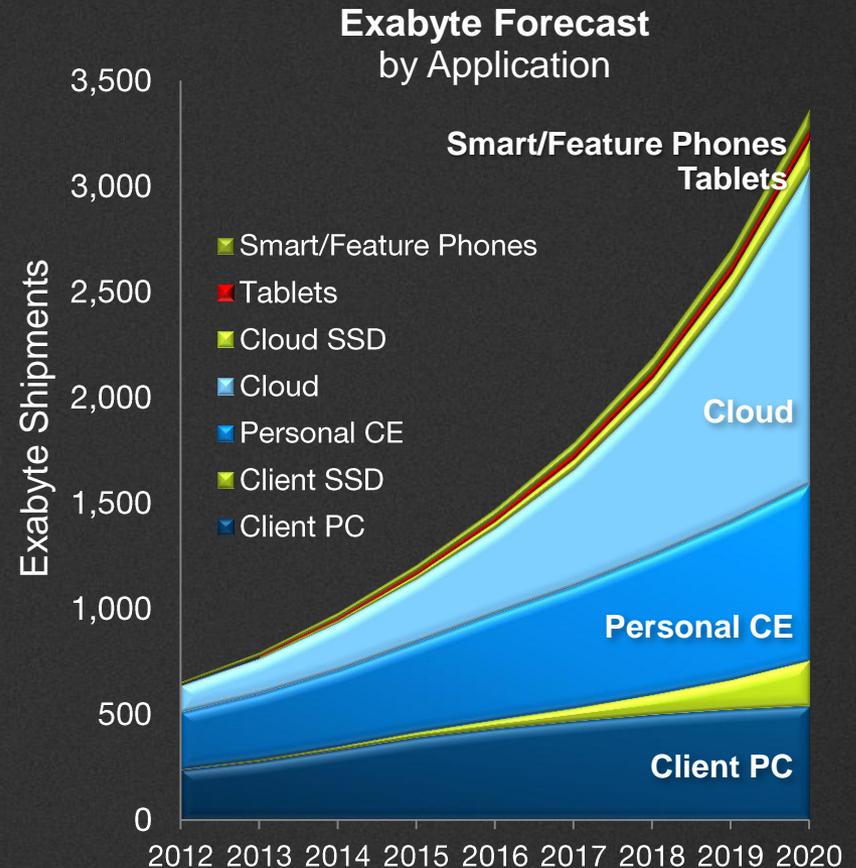
Source: Western Digital analysis

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2012–2020

# Storage Trends

- Speed and mobility driving SSD and flash growth
- Shift to thin and light in mobile creates an opportunity for new slim form factors and hybrids
- Growth in mobility and web apps driving the need for storage in the cloud (datacenter and personal)
- Flash, SSDs and HDDs are complementary



**Over 85% of Exabytes in 2020 will be stored on HDDs**

# Strategic Direction

# Strategic Direction



**People**

**Platform**



**Technology**

**Financial  
Engine**



- Continue leadership momentum
- Innovate and make markets within key segments
- Relentlessly drive operational and financial efficiency
- Strategically allocate capital
- Grow beyond HDDs

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**Western Digital is well-positioned to continue its leadership position as the storage ecosystem evolves**

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## EMERGING SOLUTIONS

# New Opportunities in Storage

Market Segments



Pain Points



Opportunities



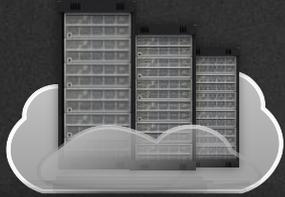
The Future



Thin and Light PCs and Mobile Devices restrict internal storage options



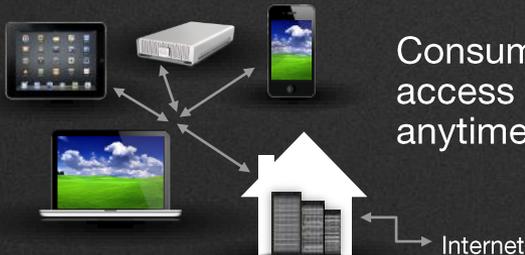
Thin HDD, Hybrid HDD and Embedded Flash



Cloud growth and scale drives reliability, capacity, performance and power requirements



PCIe SSD, Cold Storage, High-capacity HDDs and Sealed HDDs



Consumers want access to “anything, anytime, anywhere”



“Home Datacenter” with Edge Devices, Gaming/DVR and Consumption Devices



Evolve Storage into Platforms, Solutions and Infrastructure

## RECENT INNOVATIONS

# Product Announcements



**WD VelociRaptor 1TB**  
(1TB 10,000 RPM)



**WD Red**  
(HDD SOHO NAS)



**Hybrid**  
Best-of-Both



**My Net Routers**  
(HD Dual-Band Storage)



**5-7 Platter**



**My Passport**  
(2TB Portable)



**Helium Filled**  
(45% Reduction in  
Watts/TB)



**5mm 2.5"**

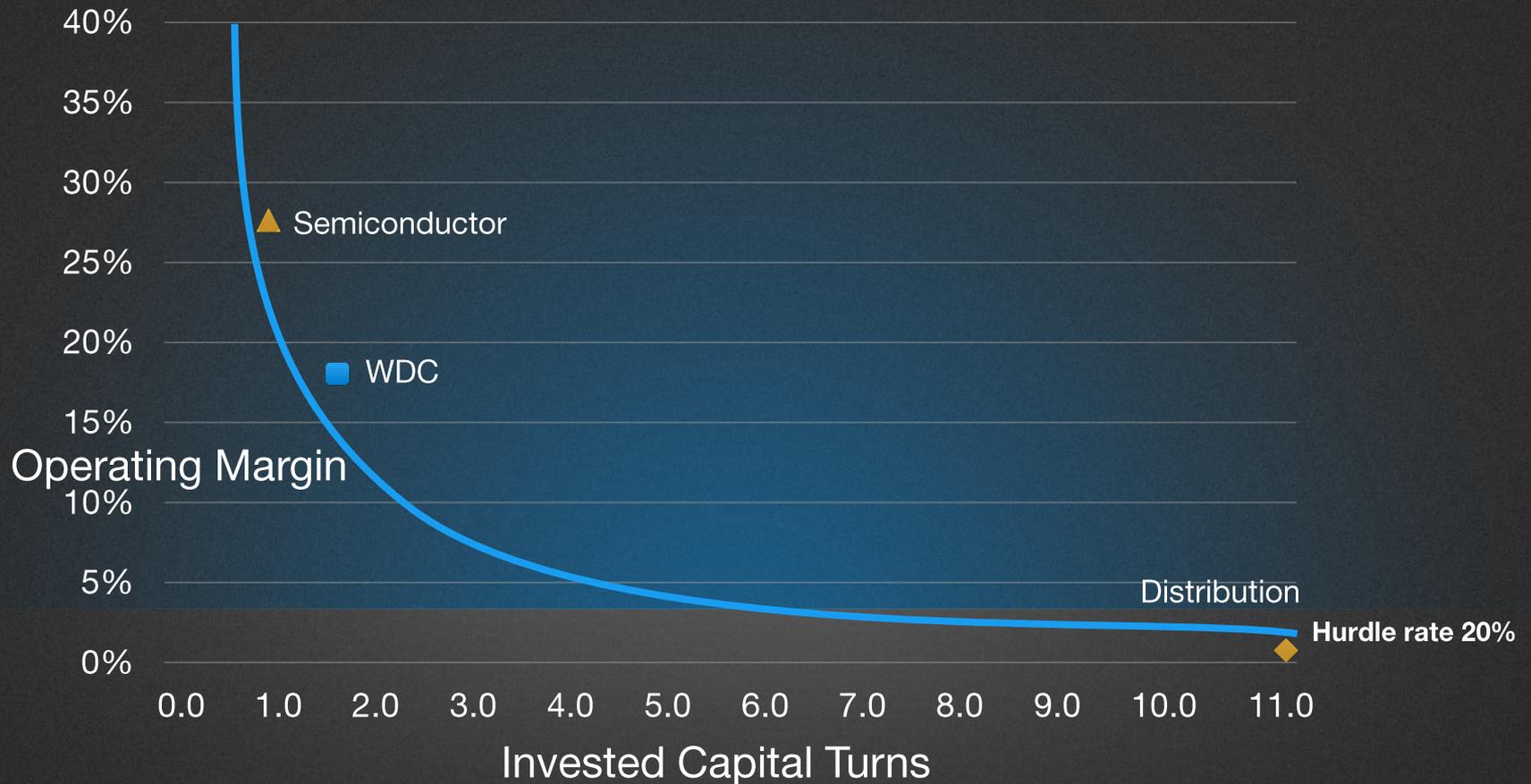
# Driving Shareholder Value

Business Model and Capital Allocation Strategy



## ROIC MANAGEMENT

# Key Financial Driver of Business Model



## BUSINESS MODEL

# Significant Opportunity

	Pre-Acquisition	New Model	Comments
Gross Margin (% of revenue)	18% - 23%	27% - 32%	Varies by business unit New businesses alter model
OPEX (% of revenue)	9% - 10%	10% - 12%	~\$550m per quarter for FY 13/14 ~2/3 for research & development
Tax Rate (% of PTI)	6% - 9%	7% - 10%	Without potential future repatriation
CAPEX (% of revenue)	7% - 8%	5% - 7%	Modest volume growth assumptions technology investments / transitions
CCC (days)	4 - 8	4 - 8	Continued strong focus on working capital efficiency

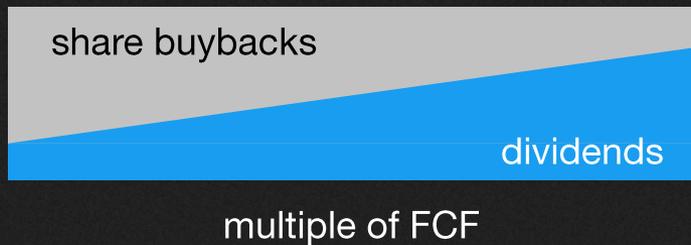
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## CAPITAL ALLOCATION STRATEGY

# Focused on Shareholder Value

### Key Financial Considerations

- Minimum cash for operations and contingencies
- Focus on CAPEX and CCC
- Investment grade leverage
- Rigorous, DCF based review of acquisitions
- Executive compensation aligned to Economic Profit
- Mix of buybacks / dividends



### Cash Return to Shareholders

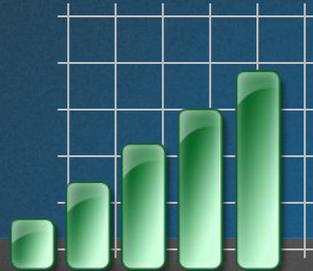
- Targeting to return 50% of FCF
- \$2.6b remaining on share repurchase authorization (as of Sept Quarter End)
- Quarterly dividend of \$0.25

# Summary

Successful business with deep resources at the center of the Storage Eco-System



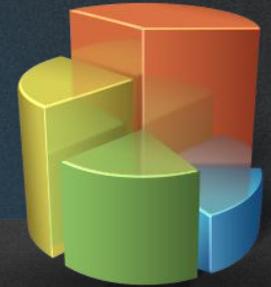
Proven business model under varied conditions



Innovating to drive change, create value



Defined capital allocation strategy



# Thank you



# Appendix

Free cash flow is a non-GAAP financial measure defined as cash flows from operations less capital expenditures. A reconciliation of cash flow from operations to free cash flow for the periods presented is below:

Reconciliation of Cash Flows from Operations to Free Cash Flow	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
Cash Flow from Operations	\$ 258	\$ 190	\$ 421	\$ 402	\$ 618	\$ 1,399	\$ 1,305	\$ 1,942	\$ 1,655	\$ 3,067
Capital Expenditures	\$ (62)	\$ (132)	\$ (194)	\$ (302)	\$ (324)	\$ (615)	\$ (519)	\$ (737)	\$ (778)	\$ (717)
Assumed Debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (585)
Free Cash Flow	\$ 196	\$ 58	\$ 227	\$ 100	\$ 294	\$ 784	\$ 786	\$ 1,205	\$ 877	\$ 1,765