Western Digital

# NASDAQ 38th Investor Conference

*Mark Long*
*Chief Financial Officer*

June 12, 2018

# 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 market positioning, technology and product platform, growth opportunities, financial and business strategies, capital structure optimization, market trends and data growth and its drivers. 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 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, mergers and joint ventures; difficulties or delays in manufacturing; 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.

# Global Data Technology Leader

Western Digital

- Headquarters: San Jose, CA
- Revenue: ~$20 Billion[1]
- Non-GAAP Gross Profit: ~$9 Billion[1]
- Demand Drivers: Embedded, Mobile, IoT, Medical, Industrial, Big Data and Fast Data in Cloud, Data Centers

**BRAND PORFOLIO**

SanDisk, WD, HGST, G-Technology, tegile, upthere

**Client Solutions**

**Client Devices**

**Data Center Devices**

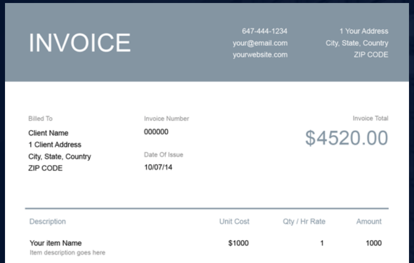
**Data Center Solutions**

Note: See Appendix for reconciliations of GAAP to Non-GAAP financial measures.
[1]LTM for March 30, 2018.

# Data Driven Economy

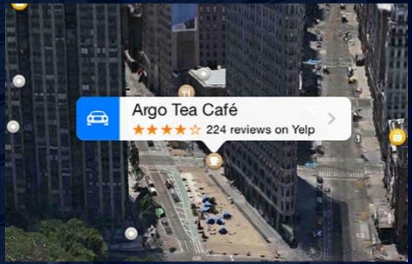
Richness

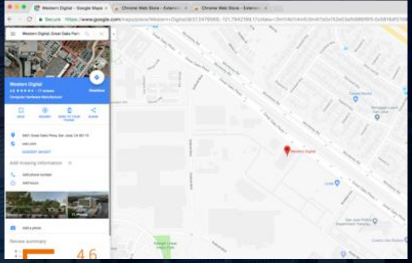
## Data as a record




## Data as communication


## Data as efficiency

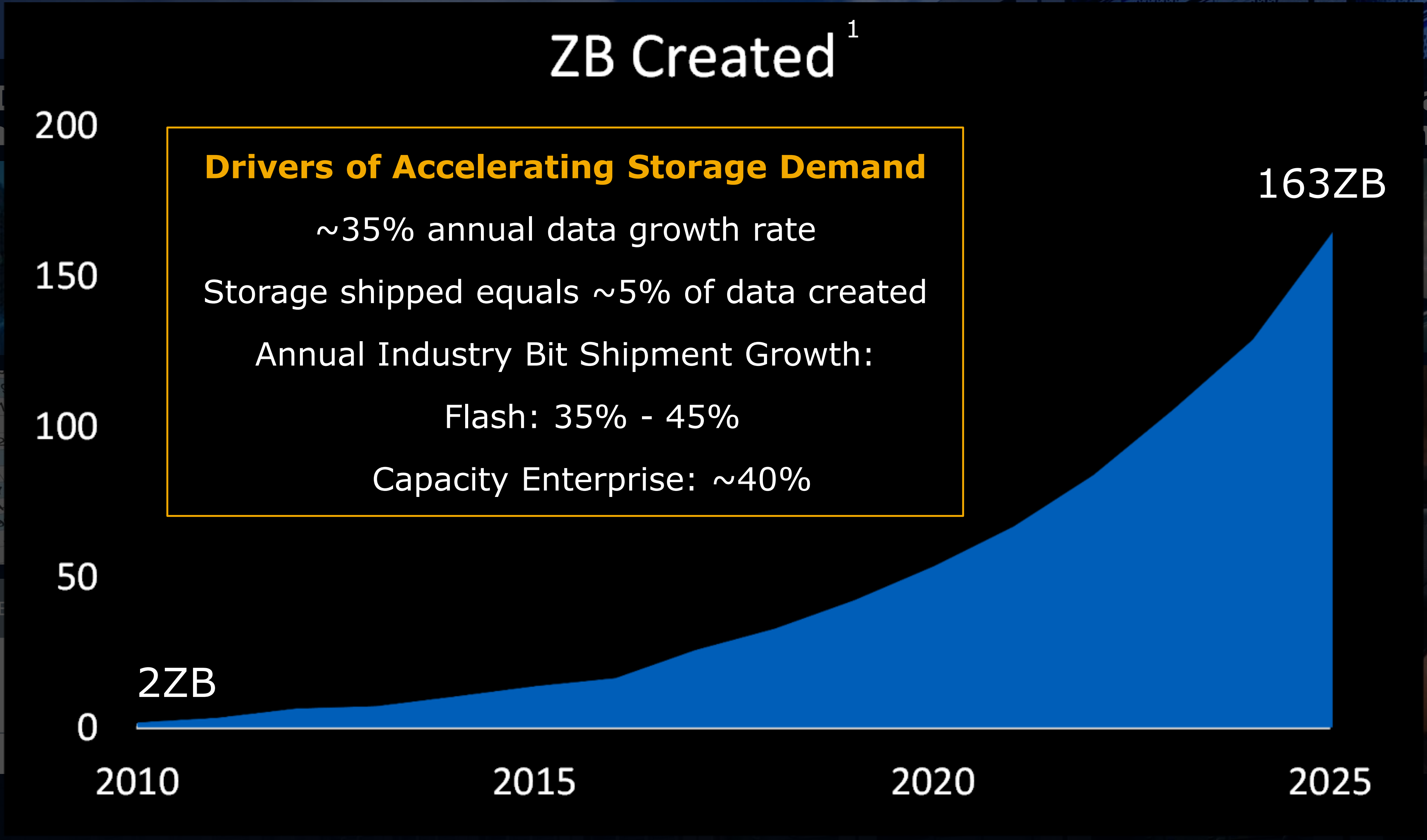


## Data as currency

Value

# Data Driven Economy

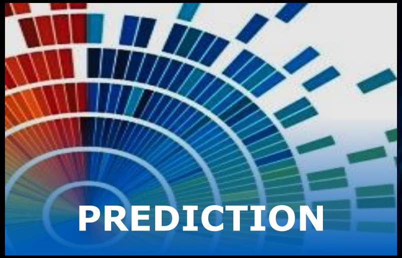



[1]IDC Data Age 2025, April 2017.

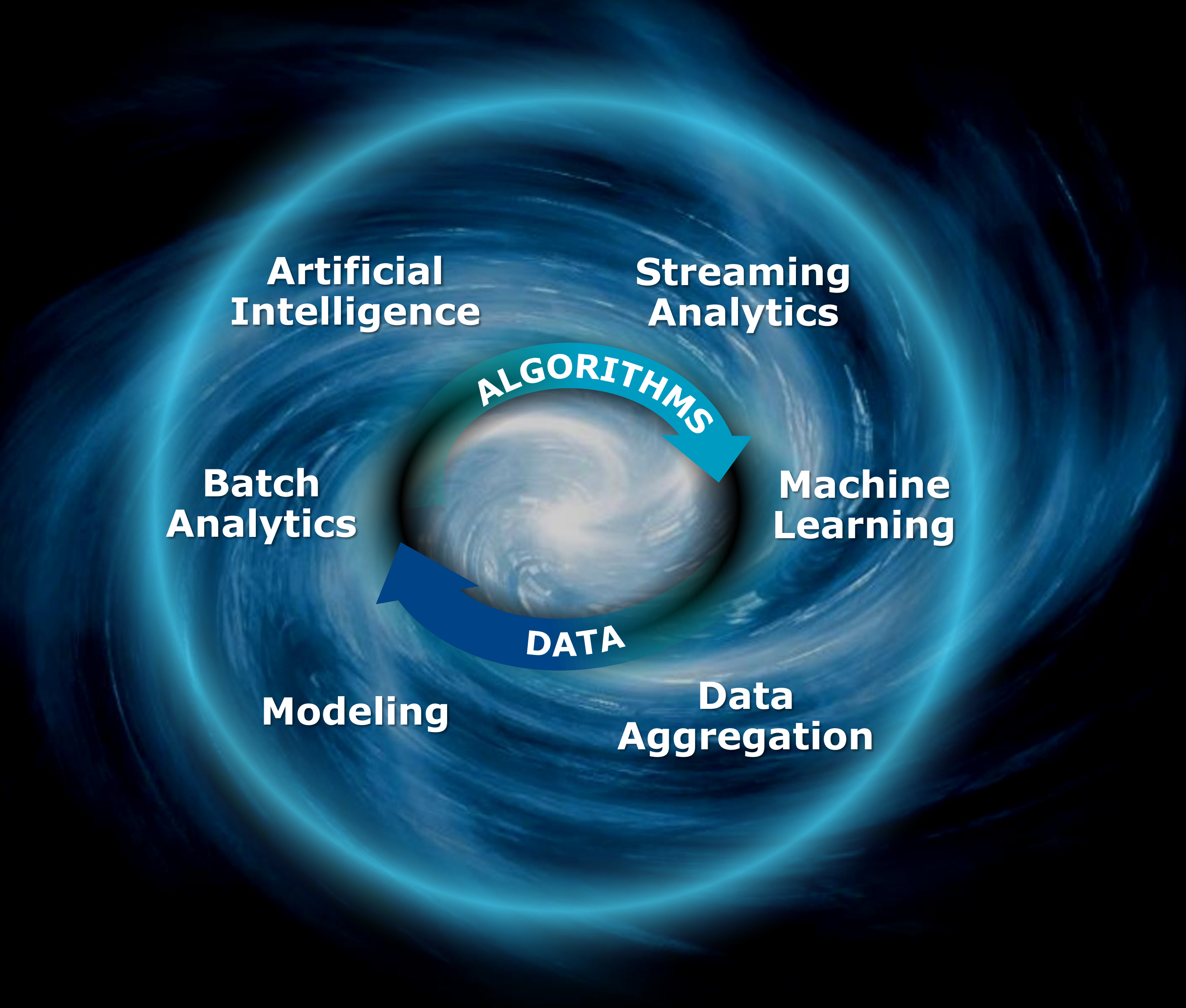
# Infrastructure Critical to Evolving Data Types

## Big Data



**Scale**



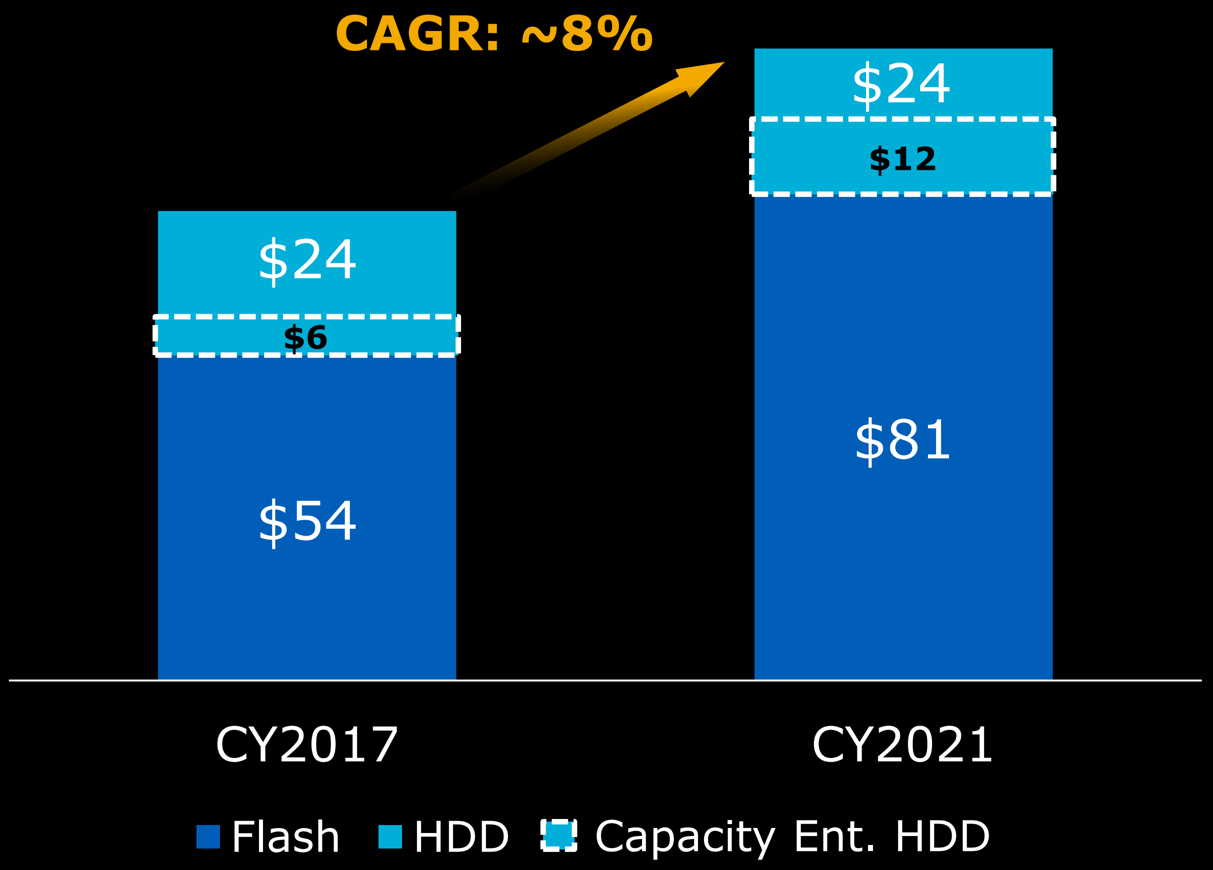

## Fast Data




**Performance**

# $105B Market Opportunity by CY2021

$ Billions




## *Key Trends*

**HDD:**
Significant growth in capacity enterprise (CY17-CY21 CAGR ~19%) offset by decline in Client

**Flash:**
Broad-based growth in the three pillars: Client, Mobile Embedded and Enterprise

Sources:
Flash: Gartner March 2018
HDD: IDC May 2018

# Leading an Evolution of the Data Storage Industry

Technology Leadership

Broad Product Portfolio

Operational Excellence

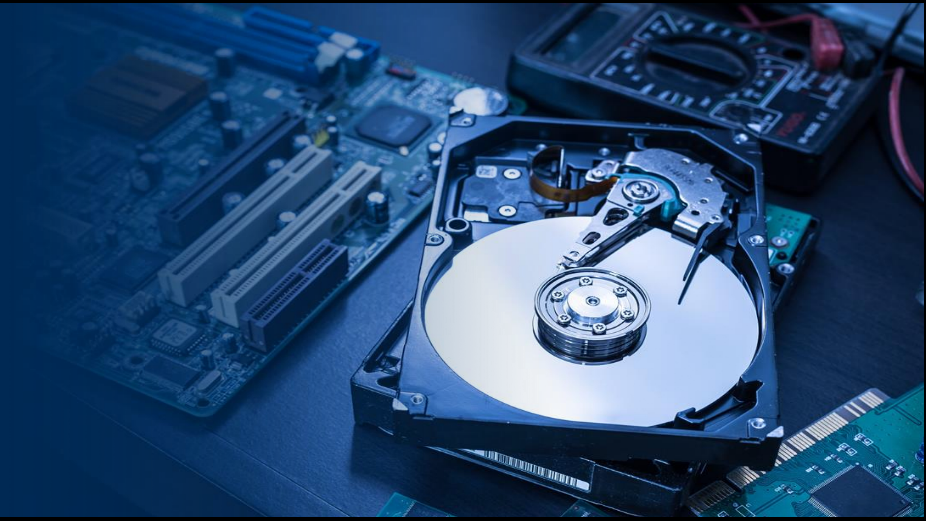
Financial Performance

Western Digital.

# Technology Leadership

*14,000+ active patents worldwide*

## HDD

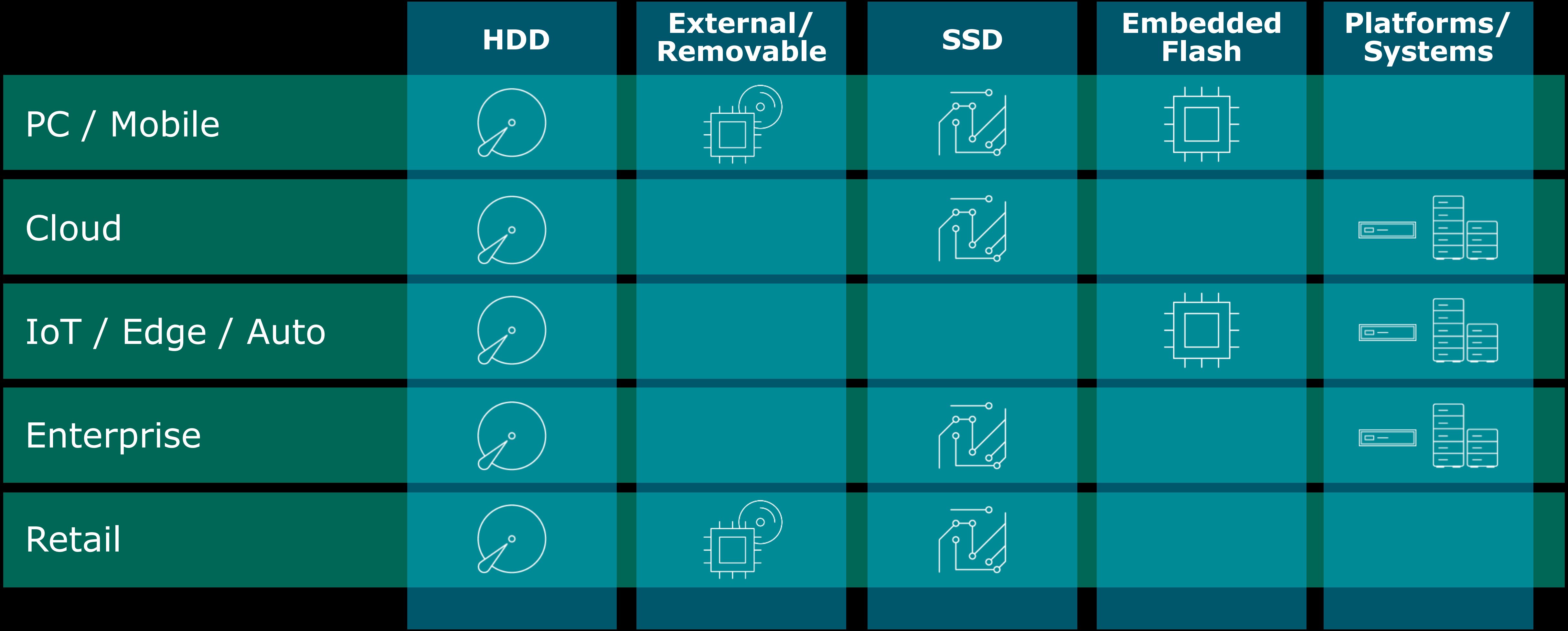


- Industry-leading Helium platform; more than 20M Helium drives shipped
- Sampling MAMR HDDs in CY2018

## Flash

- Leadership in 3D flash – 64 and 96 layer
- Migration to internally designed controllers

# Power of the Western Digital Portfolio




Product and Customer Diversity Enables Resiliency

# Operational Excellence: Core WDC Ingredient

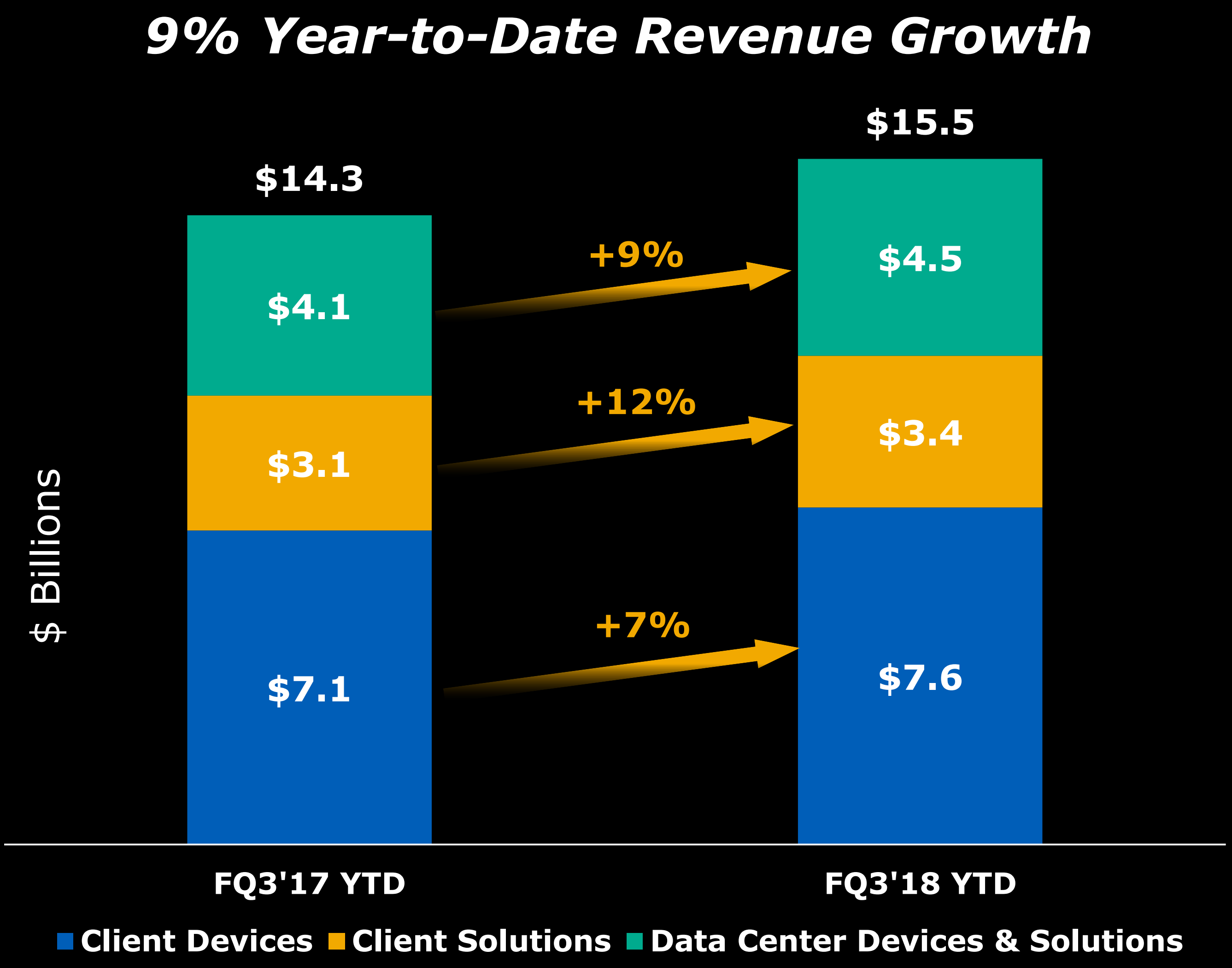
Deep management expertise

Cost and quality leader

Flexible and responsive supply chain

# Financial Overview

# Strong Revenue Growth




## Data Center Devices & Solutions

- Significant growth in capacity enterprise driven by cloud demand

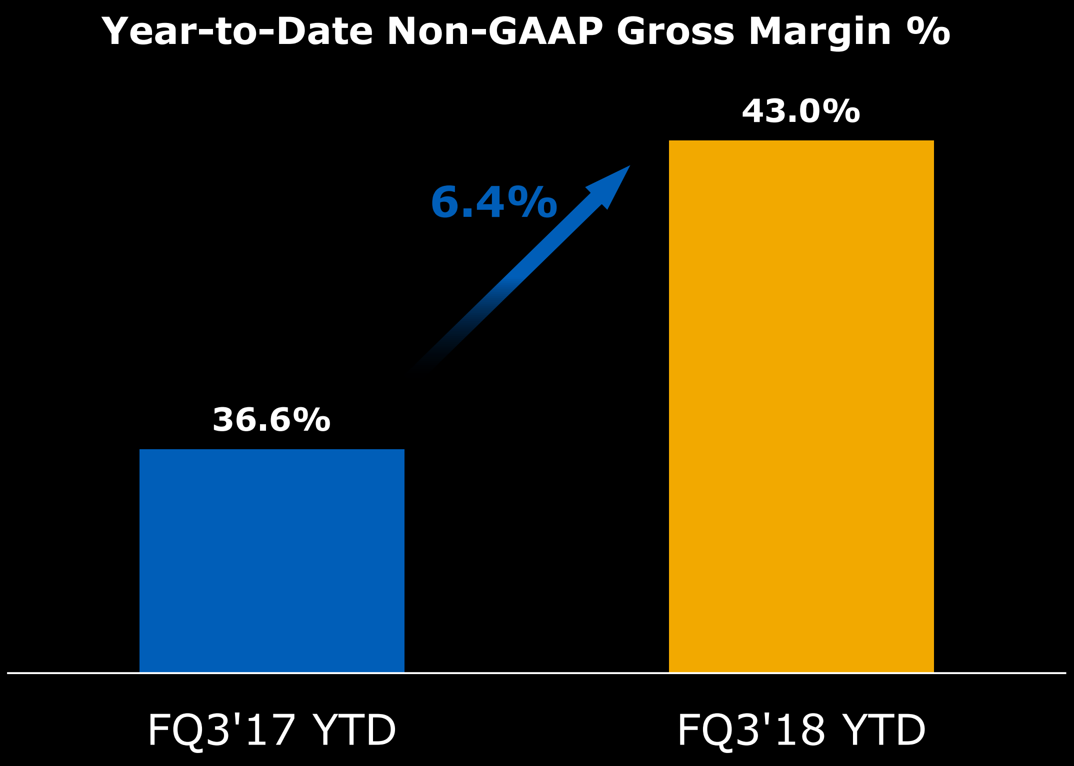
## Client Solutions

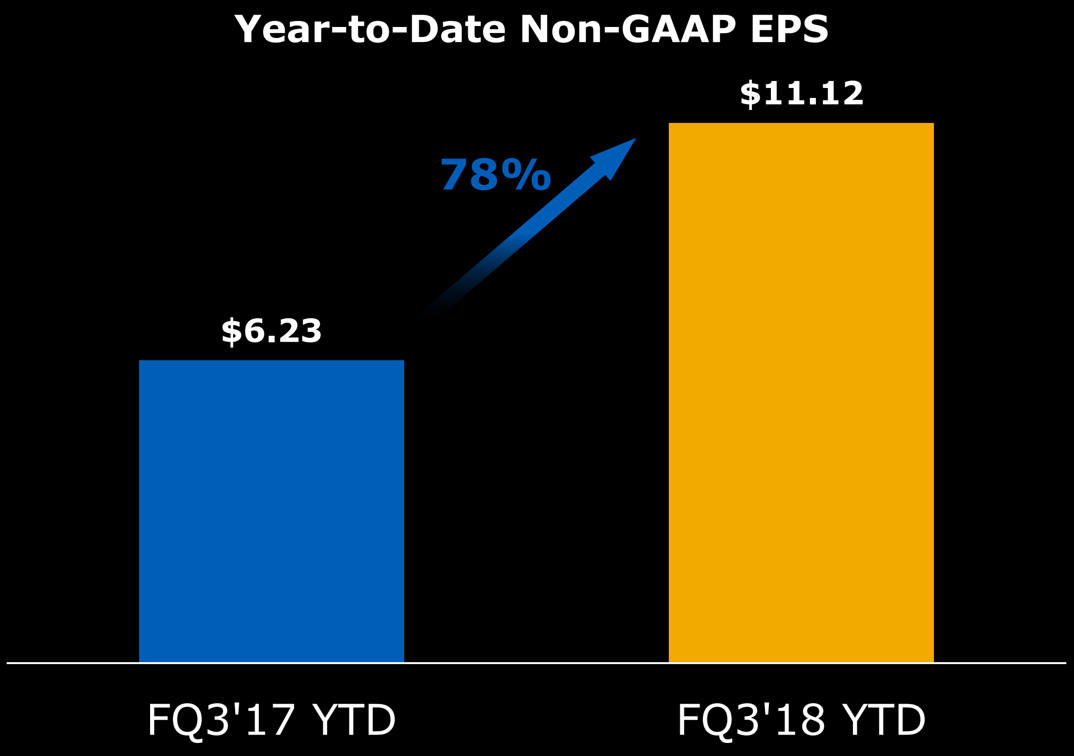
- Executed well as a result of the strength and reach of our valuable global retail brands

## Client Devices

- Growth driven by mobility, client SSD and surveillance, partially offset by HDD client compute

# Financial Performance



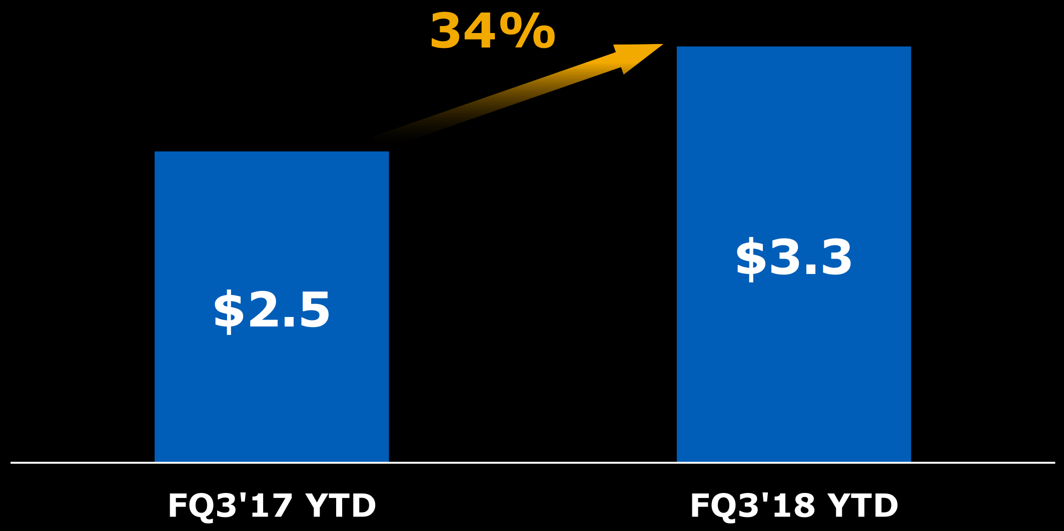

- Our product portfolio is well positioned in growing markets to serve a diverse customer base
- We are achieving significant gross margin and Non-GAAP EPS growth

Note: See Appendix for reconciliations of GAAP to Non-GAAP financial measures.

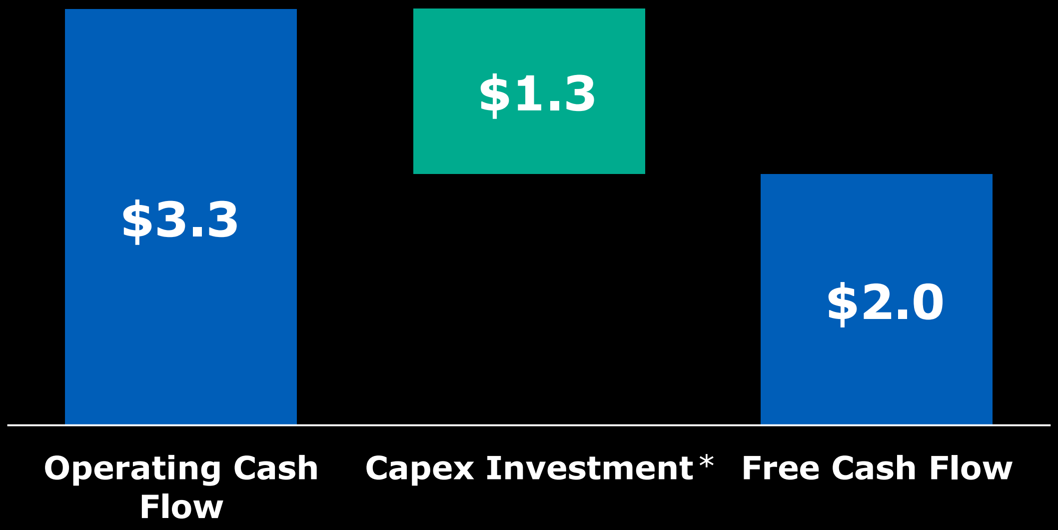
# Strong Cash Generation

- Operating Cash Flow: FQ3-2018 year over year up 3%, year to date up 34%
- Capex investment at high end of 6-8% long-term model

**Operating Cash Flow ($ Billions)**

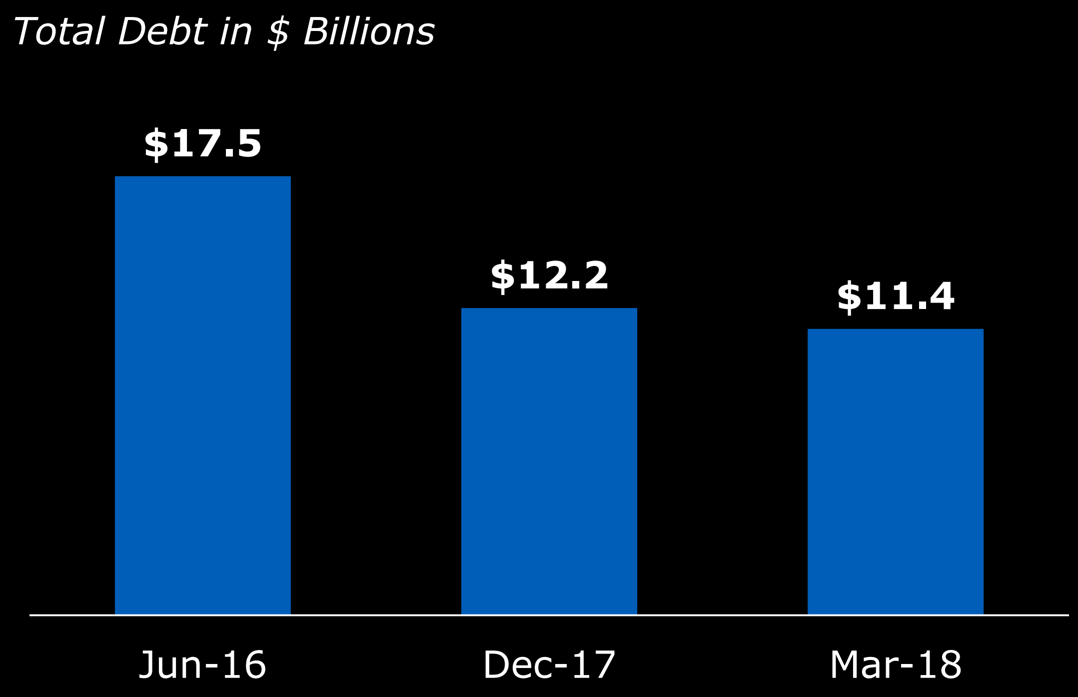


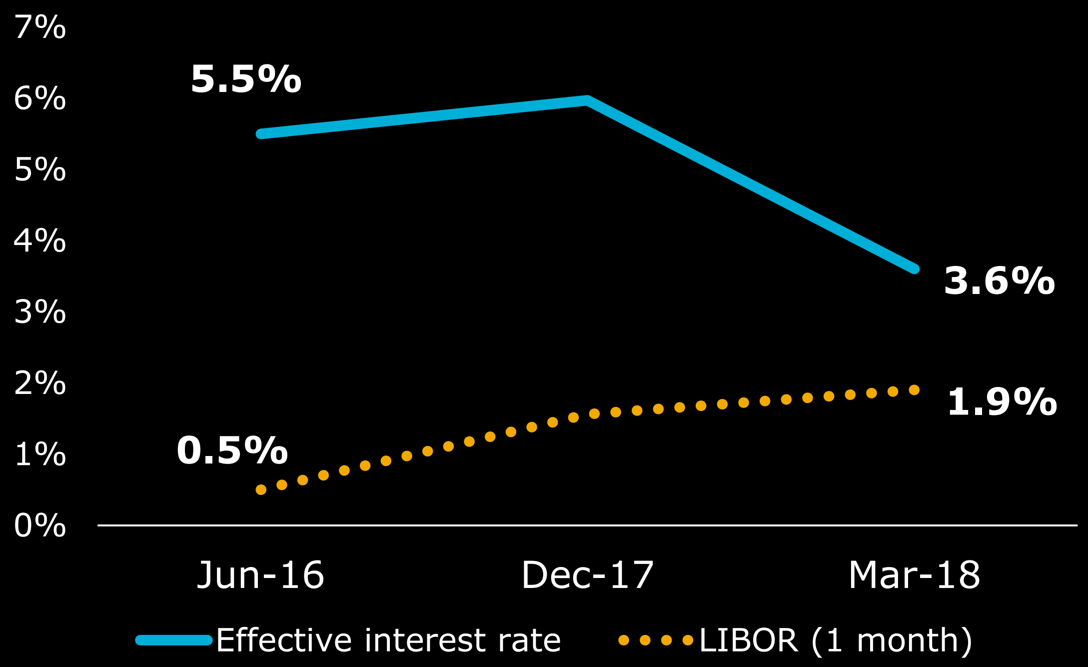

**Free Cash Flow ($ Billions)**
**FQ3-2018 YTD**




*Capex Investment reflects purchases of property, plant and equipment, net of proceeds from sales of property, plant and equipment, and the activity related to Flash Ventures, net.

# Significant Capital Structure Optimization

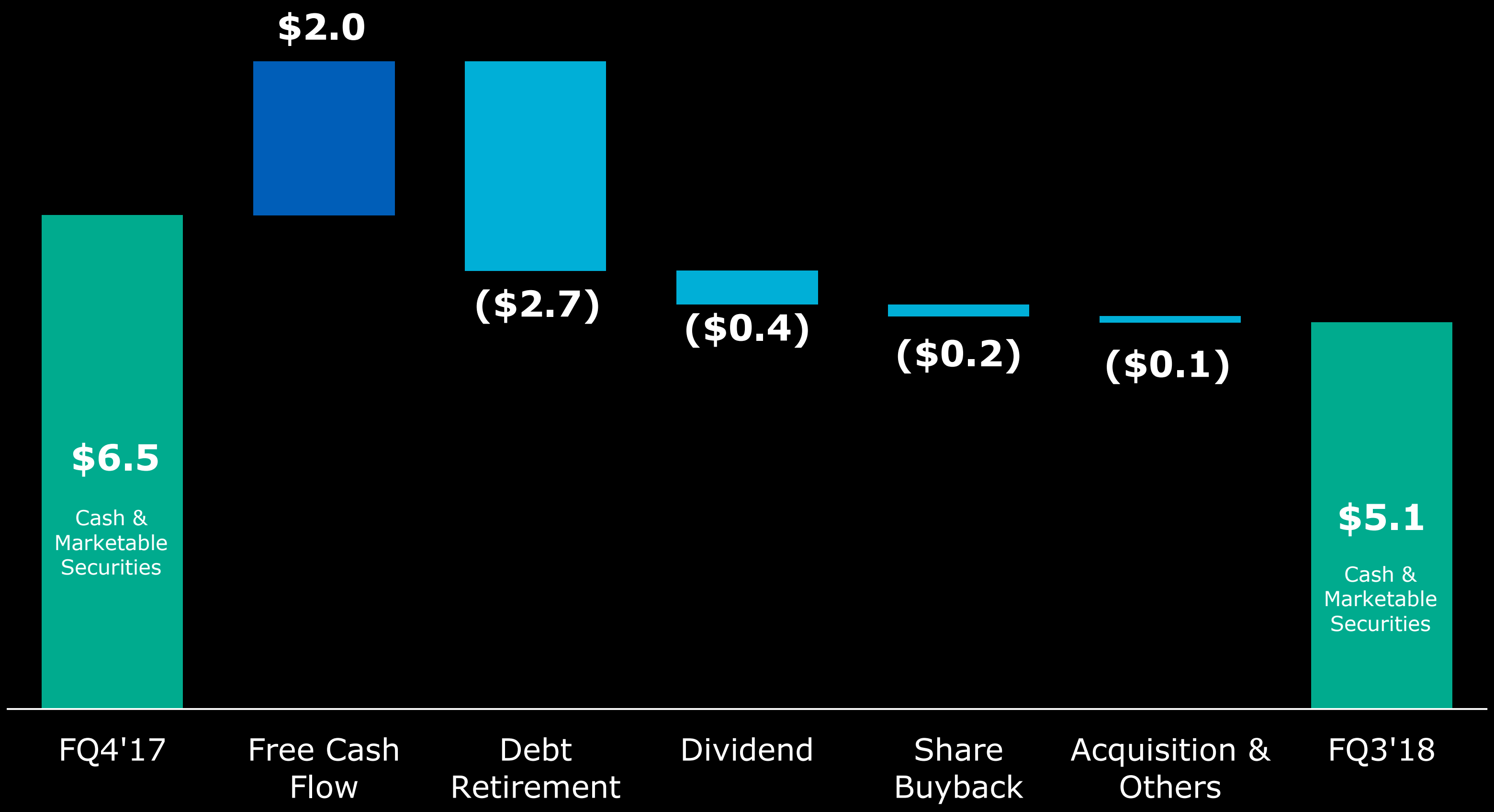



- June-16 SanDisk acquisition quarter
- March-18 Quarter
  - Significant capital structure optimization
  - Reduced annualized Non-GAAP interest expense by ~45%
- June-18 Quarter
  - Continued capital structure enhancement (repricing of US Term Loan B)

# Capital Allocation Priorities and Cash Flow Position

**Cash Flow ($ Billions)**




## Capital Allocation Priorities

- Organic and inorganic growth opportunities
- Continued optimization of capital structure
- Committed to the dividend
- Executed share buyback of ~$155M in the March quarter
- Announced additional $1B of share buyback, 50% targeted in June quarter

## Additional Liquidity Available

- $1.75B of $2.25B revolver capacity

# Investment Highlights

1. Leading Global Data Storage Solutions – Power of the Platform
2. Solid Track Record of Long-term Shareholder Value Creation
3. Vertically Integrated With a Diversified Product Portfolio
4. Technology Leadership Driven by IP and Talent
5. Large Addressable Markets With Favorable Secular Growth Drivers
6. Robust Financial Profile With Strong Free Cash Flows
7. Disciplined Capital Structure With Balanced Capital Allocation

# Appendix

# GAAP to Non-GAAP Reconciliation

*$ Millions, except per share amounts; unaudited*

| | LTM Q3'18 | YTD Q3'17 | YTD Q3'18 |
|---|---|---|---|
| **GAAP revenue** | $ 20,372 | $ 14,251 | $ 15,530 |
| **GAAP gross profit** | $ 7,534 | 4,391 | 5,853 |
| Amortization of acquired intangible assets | 1,067 | 724 | 788 |
| Stock-based compensation expense | 49 | 37 | 37 |
| Charges related to cost saving initiatives | 18 | 44 | (6) |
| Acquisition-related charges | - | 18 | - |
| Other | 2 | 3 | - |
| **Non-GAAP gross profit** | $ 8,670 | $ 5,217 | $ 6,672 |
| **GAAP gross margin %** | | 30.8% | 37.7% |
| **Non-GAAP gross margin %** | | 36.6% | 43.0% |
| **GAAP net income (loss)** | | $ 117 | $ (81) |
| Amortization of acquired intangible assets | | 843 | 910 |
| Stock-based compensation expense | | 293 | 298 |
| Employee termination, asset impairment and other charges | | 152 | 135 |
| Charges related to cost saving initiatives | | 114 | 12 |
| Acquisition-related charges | | 35 | 12 |
| Convertible debt activity, net | | 7 | 3 |
| Debt extinguishment costs | | 274 | 896 |
| Other | | 20 | (1) |
| Income tax adjustments | | (16) | 1,230 |
| **Non-GAAP net income** | | $ 1,839 | $ 3,414 |
| **Diluted income (loss) per common share:** | | | |
| GAAP | | $ 0.40 | $ (0.27) |
| Non-GAAP | | $ 6.23 | $ 11.12 |
| **Diluted weighted average shares outstanding:** | | | |
| GAAP | | 295 | 296 |
| Non-GAAP | | 295 | 307 |

# 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 net income; non-GAAP diluted income per common share; and free cash flow ("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, acquisition-related charges, charges related to cost saving initiatives, convertible debt activity, debt extinguishment costs, other charges, 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.

**Acquisition-related charges.** In connection with the company's business combinations, 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, 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 combinations, 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 on assets.

**Convertible debt activity, net.** The company excludes non-cash economic interest expense associated with its convertible notes, the gains and losses on the conversion of its convertible senior notes and call option, and unrealized gains and losses related to the change in fair value of the exercise option and call option. These charges and gains and losses do not reflect the company's operating results, and the company believes are not indicative of the underlying performance of its business.

**Non-cash economic interest expense.** 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.

**Debt extinguishment costs.** From time-to-time, the company replaces its existing debt with new financing at more favorable interest rates or utilize available capital to settle debt early, both of which generate interest savings in future periods. The company incurs debt extinguishment charges consisting of the costs to call the existing debt and/or the write-off of any related unamortized debt issuance costs. These gains and losses do not reflect the company's operating results, and the company believes are not indicative of the underlying performance of its business.

**Other charges.** From time-to-time, the company sells or impairs investments or other assets which are not considered necessary to its business operations; is a party to legal or arbitration proceedings, which could result in an expense or benefit due to settlements, final judgments, or accruals for loss contingencies; 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. Additionally, as a result of the Tax Cuts and Jobs Act, the nine months ended March 30, 2018 income tax adjustments include a provisional income tax expense of $1.66 billion for the one-time mandatory deemed repatriation tax and a provisional income tax benefit of $79 million related to the re-measurement of deferred tax assets and liabilities.

**Free cash flow.** 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. The company considers free cash flow to be useful as an indicator of its overall liquidity, as the amount of free cash flow generated in any period is representative of cash that is available for strategic opportunities including, among others, investing in the company's business, making strategic acquisitions, strengthening the balance sheet, repaying debt, paying dividends and repurchasing stock.

Western Digital®