



Western Digital.



Fiscal Q1-2019 Earnings



October 25, 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 product and technology platform; market positioning; business strategies and growth opportunities; our expected future financial performance; market and flash industry trends; and actions to align our flash output with projected demand. 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; 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.

FQ1-2019 Executive Summary

- Strength in capacity enterprise, surveillance hard drives and embedded flash solutions
- End market strength was offset by ongoing declines in flash pricing
- A challenging global business environment and related economic impacts are contributing to a more conservative demand outlook for our products
- Taking immediate actions to align our flash output with projected demand
- WDC remains focused on:
 - Technology leadership
 - Expansion and diversification of our product portfolio
 - Continued operational improvements

FQ1-2019 Results



Revenue
\$5.0B



Non-GAAP
Gross margin
38%



Non-GAAP
EPS
\$3.04

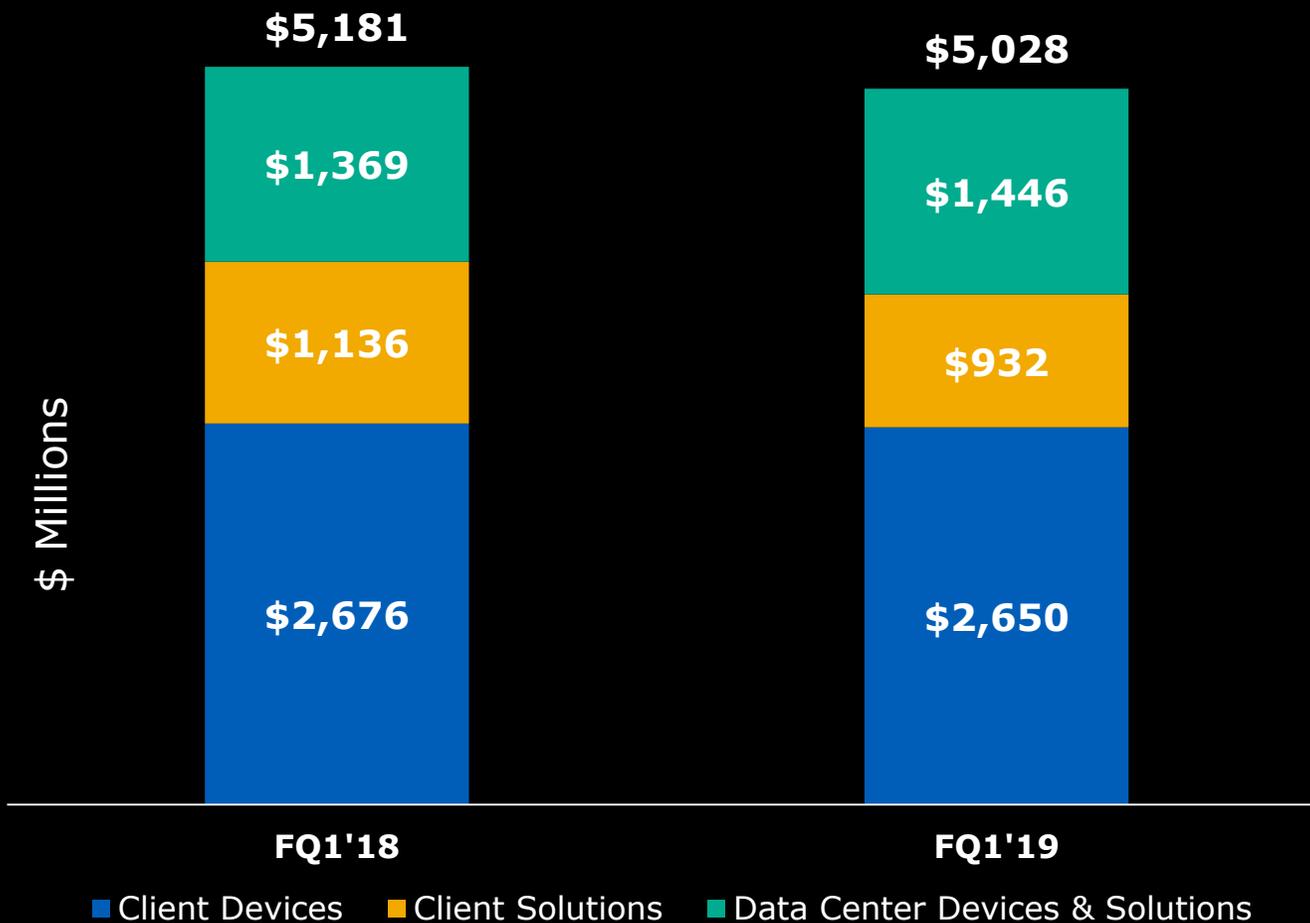


Operating cash flow
\$705M

See Appendix for reconciliations of GAAP to Non-GAAP financial measures

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FQ1-2019 Revenue Results



Data Center Devices & Solutions

- Significant growth in capacity enterprise driven by cloud related storage demand

Client Solutions

- Maintained our global brand leadership in an aggressive pricing environment

Client Devices

- Healthy demand in embedded mobile flash and surveillance hard drives offset by client compute hard drives

FQ1-2019 Non-GAAP Results

\$ Millions, except EPS	FQ1'18	FQ4'18	FQ1'19
Revenue	\$5,181	\$5,117	\$5,028
Gross Margin %	42.3%	41.0%	38.0%
Operating Expenses	\$819	\$820	\$820
Operating Income	\$1,373	\$1,277	\$1,091
Interest and Other Expense, net	\$200	\$101	\$99
EPS	\$3.56	\$3.61	\$3.04

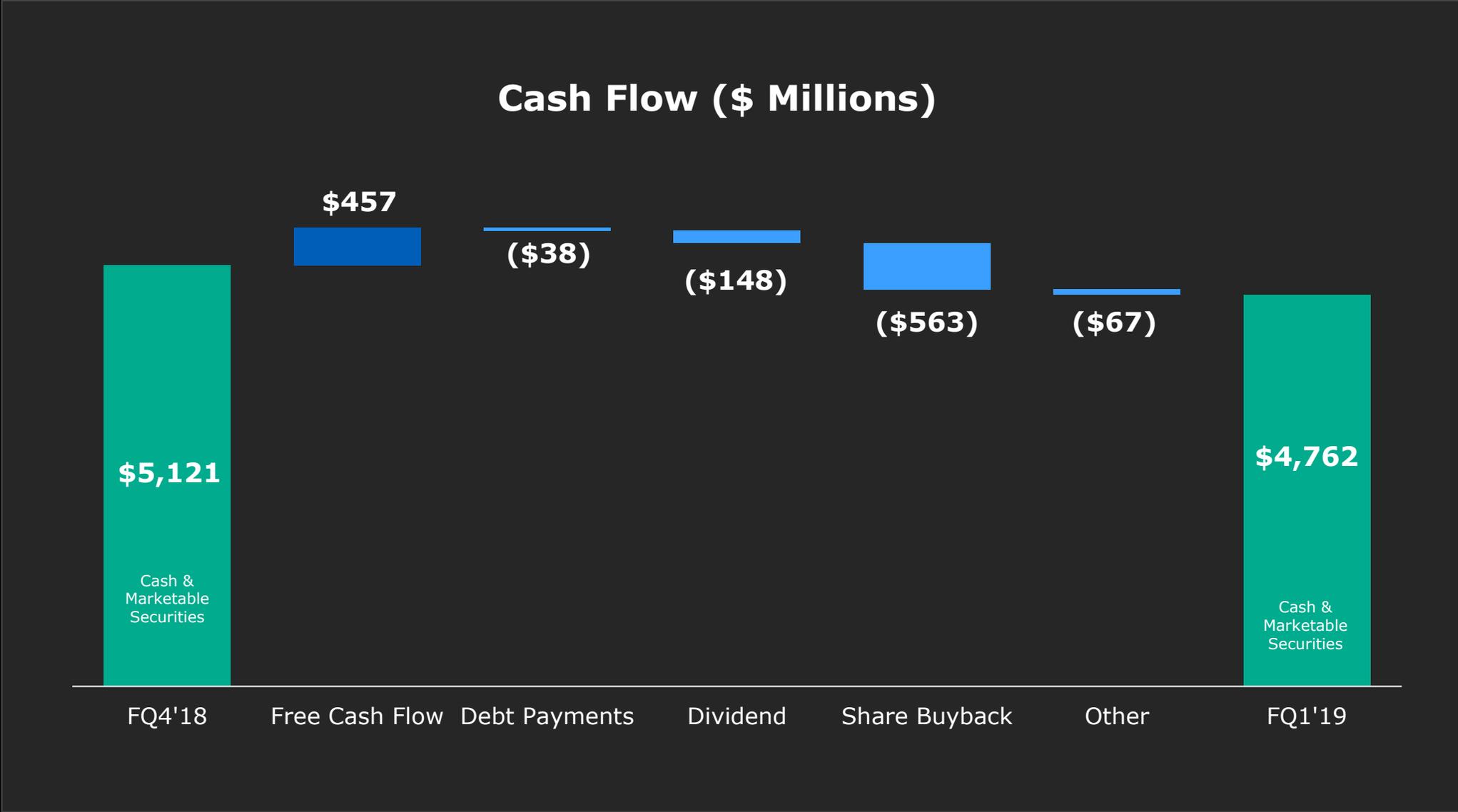
QoQ	YoY
(2%)	(3%)
(300) BPS	(430) BPS
Flat	Flat
(15%)	(21%)
(2%)	(51%)
(16%)	(15%)

Operating Cash Flow	\$1,133	\$863	\$705
Free Cash Flow	\$847	\$638	\$457

(18%)	(38%)
(28%)	(46%)

See Appendix for reconciliations of GAAP to Non-GAAP financial measures

FQ1-2019 Cash Flow Walk



Quarterly Fact Sheet

Amounts in millions, except Average Selling Price (ASP), percentages, and working capital-related metrics

	Three Months Ended				
	9/29/2017	12/29/2017	3/30/2018	6/29/2018	9/28/2018
REVENUE					
Client Devices ¹	\$ 2,676	\$ 2,647	\$ 2,311	\$ 2,474	\$ 2,650
Client Solutions ¹	1,136	1,255	1,042	1,031	932
Data Center Devices & Solutions ¹	1,369	1,434	1,660	1,612	1,446
Total Revenue	\$ 5,181	\$ 5,336	\$ 5,013	\$ 5,117	\$ 5,028
EXABYTES GROWTH					
Q/Q Change in HDD Exabytes Sold ²	7%	9%	7%	6%	(6%)
Q/Q Change in Flash Exabytes Sold ²	12%	9%	(10%)	9%	28%
Q/Q Change in Total Exabytes Sold ²	8%	9%	5%	6%	(3%)
TECHNOLOGY					
HDD Revenue	\$ 2,610	\$ 2,694	\$ 2,640	\$ 2,754	\$ 2,494
Flash Revenue	\$ 2,571	\$ 2,642	\$ 2,373	\$ 2,363	\$ 2,534
HDD Non-GAAP Gross Margin ³	31%	30%	33%	32%	32%
Flash Non-GAAP Gross Margin ³	53%	57%	55%	51%	44%
Total Non-GAAP Gross Margin ³	42.3%	43.2%	43.4%	41.0%	38.0%
CASH					
Cash and Cash Equivalents	\$ 6,886	\$ 6,272	\$ 4,963	\$ 5,005	\$ 4,646
Available-for-Sale (AFS) Securities	129	117	113	116	116
Total Cash, Cash Equivalents, and AFS Securities	\$ 7,015	\$ 6,389	\$ 5,076	\$ 5,121	\$ 4,762
CASH FLOWS					
Cash Flows provided by Operating Activities	\$ 1,133	\$ 1,182	\$ 1,027	\$ 863	\$ 705
Purchases of Property, Plant and Equipment, net	(155)	(251)	(213)	(190)	(277)
Activity Related to Flash Ventures, net	(131)	(378)	(198)	(35)	29
Free Cash Flow ⁴	\$ 847	\$ 553	\$ 616	\$ 638	\$ 457
WORKING CAPITAL RELATED					
Days Sales Outstanding	37	35	36	39	40
Days Inventory Outstanding	64	62	79	82	84
Days Payables Outstanding	(64)	(59)	(71)	(70)	(64)
Cash Conversion Cycle	37	38	44	51	60
FLASH METRICS					
Q/Q Change in ASP/Gigabytes ²	0%	(5%)	(2%)	(8%)	(16%)
HDD METRICS					
Client Compute Units ⁵	20.9	21.1	17.6	17.8	16.3
Non-Compute Units ⁶	15.2	14.4	11.2	13.7	11.2
Data Center Units ⁷	6.1	6.8	7.6	7.5	6.6
Total HDD Units ⁸	42.2	42.3	36.4	39.0	34.1
HDD ASP ⁹	\$ 61	\$ 63	\$ 72	\$ 70	\$ 72

Quarterly Fact Sheet Footnotes

Formulas:

Days Sales Outstanding (DSO) = Accounts Receivable / (Revenue / 91 days)

Days Inventory Outstanding (DIO) = Inventories / (Cost of Revenue / 91 days)

Days Payables Outstanding (DPO) = Accounts Payable (including Accounts Payable to Related Parties) / (Cost of Revenue / 91 days)

Cash Conversion Cycle = DSO + DIO – DPO

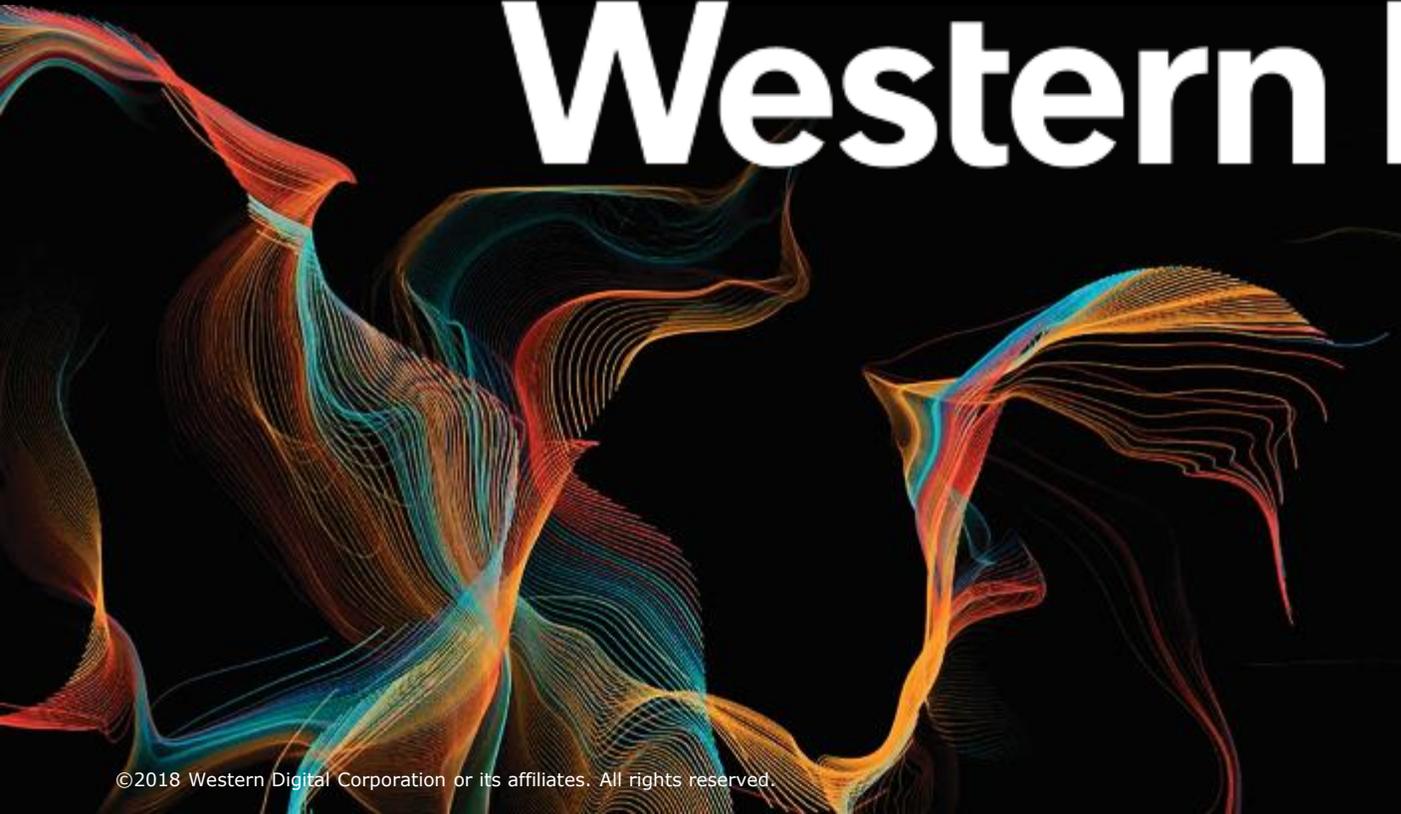
Footnotes:

- 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 this 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 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 9/28/2018 (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	\$500	3.742%
Term Loan A-1 ^D	L+150	February 27, 2023	\$4,959	3.728% ^E
Term Loan B-4 U.S. Dollar ^D	L+175	April 29, 2023	\$2,443	3.992%
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			\$11,337	3.767% ^H

- A. All-in applicable rates as of September 28, 2018. Applicable spread for Term Loan A-1 and Revolver over LIBOR based on credit ratings as of September 28, 2018
- B. Debt assumed in connection with the acquisition of SanDisk Corporation in May 2016
- C. Revolver capacity: \$2.25 billion, of which \$500 million was drawn as of September 28, 2018
- D. Term Loan A-1, Term Loan B-4 U.S. Dollar, and Revolver have a LIBOR floor of 0bps
- E. Reflects impact of the interest rate swaps that effectively fix LIBOR at 1.66% on \$1 billion of floating-rate debt through May 2020 and LIBOR at 2.75% on an additional \$1 billion of floating-rate debt 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 based on principal balances outstanding as of September 28, 2018

An abstract graphic on the left side of the image, consisting of multiple overlapping, flowing lines in shades of red, orange, yellow, and cyan. The lines create a sense of movement and depth, resembling a stylized wave or a digital signal. The background is solid black.

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Appendix

GAAP to Non-GAAP Reconciliation

In millions; unaudited

	Three Months Ended		
	9/29/2017	6/29/2018	9/28/2018
GAAP COST OF REVENUE	\$ 3,268	\$ 3,265	\$ 3,364
Amortization of acquired intangible assets	(279)	(234)	(235)
Stock-based compensation expense	(13)	(12)	(11)
Charges related to cost saving initiatives	13	1	(1)
NON-GAAP COST OF REVENUE	\$ 2,989	\$ 3,020	\$ 3,117
GAAP GROSS PROFIT	\$ 1,913	\$ 1,852	\$ 1,664
Amortization of acquired intangible assets	279	234	235
Stock-based compensation expense	13	12	11
Charges related to cost saving initiatives	(13)	(1)	1
NON-GAAP GROSS PROFIT	\$ 2,192	\$ 2,097	\$ 1,911
GAAP OPERATING EXPENSES	\$ 1,008	\$ 1,009	\$ 978
Amortization of acquired intangible assets	(40)	(41)	(41)
Stock-based compensation expense	(84)	(66)	(68)
Employee termination, asset impairment and other charges	(52)	(80)	(46)
Acquisition-related charges	(4)	(1)	-
Charges related to cost saving initiatives	(9)	(1)	(3)
NON-GAAP OPERATING EXPENSES	\$ 819	\$ 820	\$ 820
GAAP OPERATING INCOME	\$ 905	\$ 843	\$ 686
Cost of revenue adjustments	279	245	247
Operating expense adjustments	189	189	158
NON-GAAP OPERATING INCOME	\$ 1,373	\$ 1,277	\$ 1,091
GAAP INTEREST AND OTHER EXPENSE, NET	\$ (195)	\$ (114)	\$ (103)
Convertible debt activity, net	-	7	7
Debt extinguishment costs	-	3	-
Other	(5)	3	(3)
NON-GAAP INTEREST AND OTHER EXPENSE, NET	\$ (200)	\$ (101)	\$ (99)
GAAP INCOME TAX EXPENSE (BENEFIT)	\$ 29	\$ (27)	\$ 72
Income tax adjustments	55	94	14
NON-GAAP INCOME TAX EXPENSE	\$ 84	\$ 67	\$ 86

GAAP to Non-GAAP Reconciliation

In millions, except EPS and percentages; unaudited

	Three Months Ended		
	9/29/2017	6/29/2018	9/28/2018
GAAP NET INCOME	\$ 681	\$ 756	\$ 511
Amortization of acquired intangible assets	319	275	276
Stock-based compensation expense	97	78	79
Employee termination, asset impairment and other charges	52	80	46
Acquisition-related charges	4	1	-
Charges related to cost saving initiatives	(4)	-	4
Convertible debt activity, net	-	7	7
Debt extinguishment costs	-	3	-
Other	(5)	3	(3)
Income tax adjustments	(55)	(94)	(14)
NON-GAAP NET INCOME	\$ 1,089	\$ 1,109	\$ 906
DILUTED INCOME PER COMMON SHARE			
GAAP	\$ 2.23	\$ 2.46	\$ 1.71
Non-GAAP	\$ 3.56	\$ 3.61	\$ 3.04
DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING			
GAAP	306	307	298
Non-GAAP	306	307	298

	Three Months Ended*				
	9/29/2017	12/29/2017	3/30/2018	6/29/2018	9/28/2018
GAAP GROSS MARGIN	36.9%	37.7%	38.4%	36.2%	33.1%
Amortization of acquired intangible assets	5.4%	5.1%	4.7%	4.6%	4.7%
Stock-based compensation expense	0.3%	0.3%	0.2%	0.2%	0.2%
Charges related to cost saving initiatives	(0.3%)	0.1%	0.1%	0.0%	0.0%
NON-GAAP GROSS MARGIN	42.3%	43.2%	43.4%	41.0%	38.0%
HDD non-GAAP gross margin	31%	30%	33%	32%	32%
Flash non-GAAP gross margin	53%	57%	55%	51%	44%
NON-GAAP GROSS MARGIN	42.3%	43.2%	43.4%	41.0%	38.0%

*GAAP gross margin is calculated by dividing GAAP gross profit by revenue. Total non-GAAP gross margin is calculated by dividing total non-GAAP gross profit by total revenue. HDD non-GAAP gross margin is calculated by dividing HDD non-GAAP gross profit by HDD revenue. Flash non-GAAP gross margin is calculated by dividing Flash non-GAAP gross profit 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 cost of revenue; non-GAAP gross profit; non-GAAP operating expenses; non-GAAP operating income; non-GAAP interest and other expense, net; non-GAAP income tax expense; non-GAAP net income; non-GAAP diluted income per common share; and non-GAAP gross margin ("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 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.

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.

Debt extinguishment costs. From time-to-time, the company replaces its existing debt with new financing at more favorable interest rates or utilizes 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 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. Additionally, the income tax adjustments include the impact of updated estimates to the provisional one-time mandatory deemed repatriation tax as a result of the Tax Cuts and Jobs Act.