

Fourth Quarter & Fiscal Year 2020 Results

August 5, 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, the company's preliminary financial results for its fiscal fourth quarter ended July 3, 2020; the company's business outlook for the fiscal first quarter of 2021; expectations regarding the impact of COVID-19; demand trends and market conditions; the company's product portfolio; the data storage ecosystem; the company's strategic priorities; capital expenditure trends; capital allocation priorities; and expected future financial performance. 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 future responses to and effects of the COVID-19 pandemic; 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.

Fiscal Year 2020 In Review

Technology Innovation

- Announced BiCS5, next generation 3D NAND with 112-layer technology; capital efficient node providing 40% more bits per wafer versus prior generation
- First in the industry to ship energy-assisted drives for mass production, including our 16- and 18-terabyte CMR drives and a 20-terabyte SMR drive

Financial

- Revenue totaled \$16.7 billion
- Non-GAAP EPS of \$3.04
- Generated operating cash flow of \$824 million and free cash flow of \$1.1 billion
- Total debt repayment of \$982 million
- Returned \$595 million in dividends to shareholders
- Focused on reducing debt; announced dividend suspension at Q3 earnings to support these efforts

Strategic and Operational

- David Goeckeler announced as our new Chief Executive Officer in March 2020
- Managed COVID-19 impacts by taking action to protect health and safety of employees and deliver high-quality products to customers
- Designated as one of the 2020 World's Most Ethical Companies by Ethisphere
- Received a perfect score with HRC Foundation's Corporate Equality Index, recognized by Women's Choice Award as a Best Company for Millennials and recognized by Avtar as one of the 100 Best Companies for Women

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

Fourth Quarter 2020 Executive Summary

RESULTS

- Fourth quarter revenue of **\$4.3 billion**, up 18% from the prior year period
- Non-GAAP diluted net earnings per share (EPS) of **\$1.23**, includes \$96 million in costs related to COVID-19
- Generated operating cash flow of **\$172 million** and free cash flow of **\$261 million**

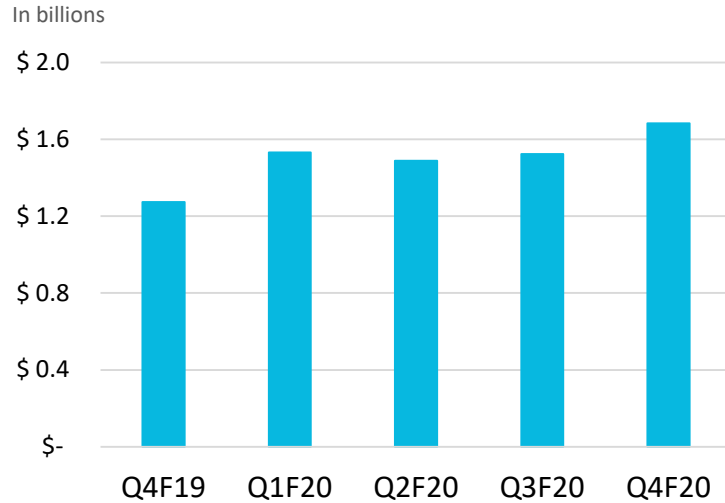
BUSINESS HIGHLIGHTS

- **Flash**
 - Another quarter of record client SSD revenue
 - Enterprise SSD revenue increased almost 70% sequentially
 - BiCS5 ramp is going very well with impressive yields
- **Hard Drives**
 - Customer interest in our 16- & 18-terabyte drives is very high
 - Expect a strong ramp in fiscal second quarter of 2021
 - Demand for our 14-terabyte drives continues to be strong

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

Revenue Trends

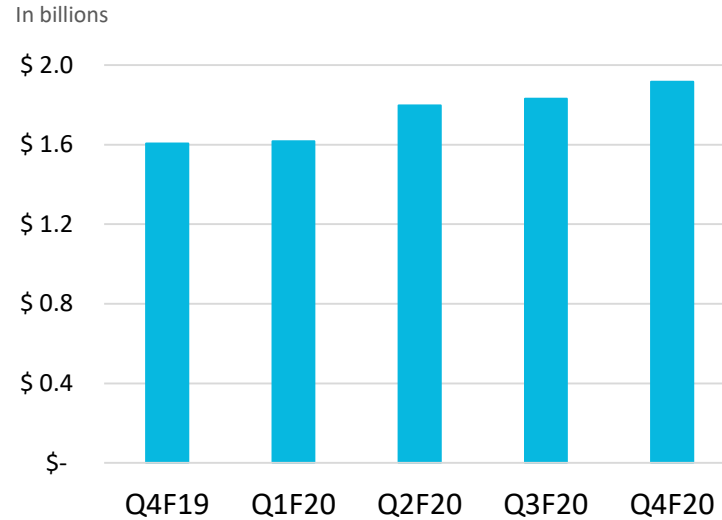
Data Center Devices & Solutions



Revenue

\$1.68 billion
increased 11% QoQ
increased 32% YoY

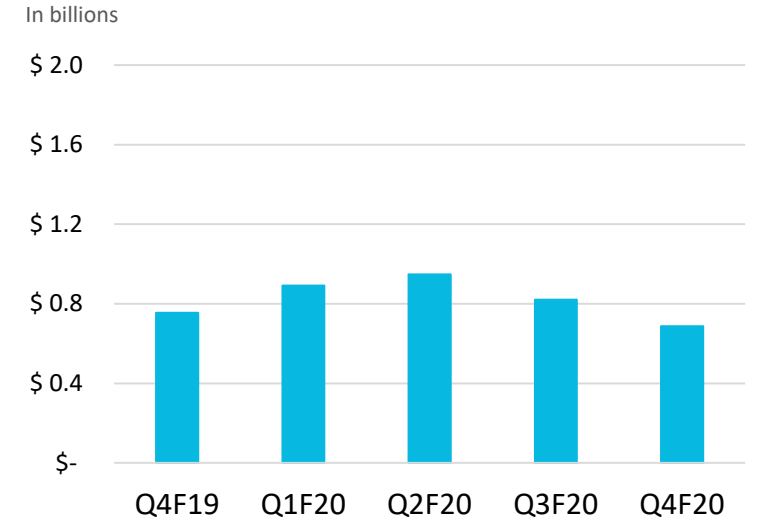
Client Devices



Revenue

\$1.92 billion
increased 5% QoQ
increased 19% YoY

Client Solutions

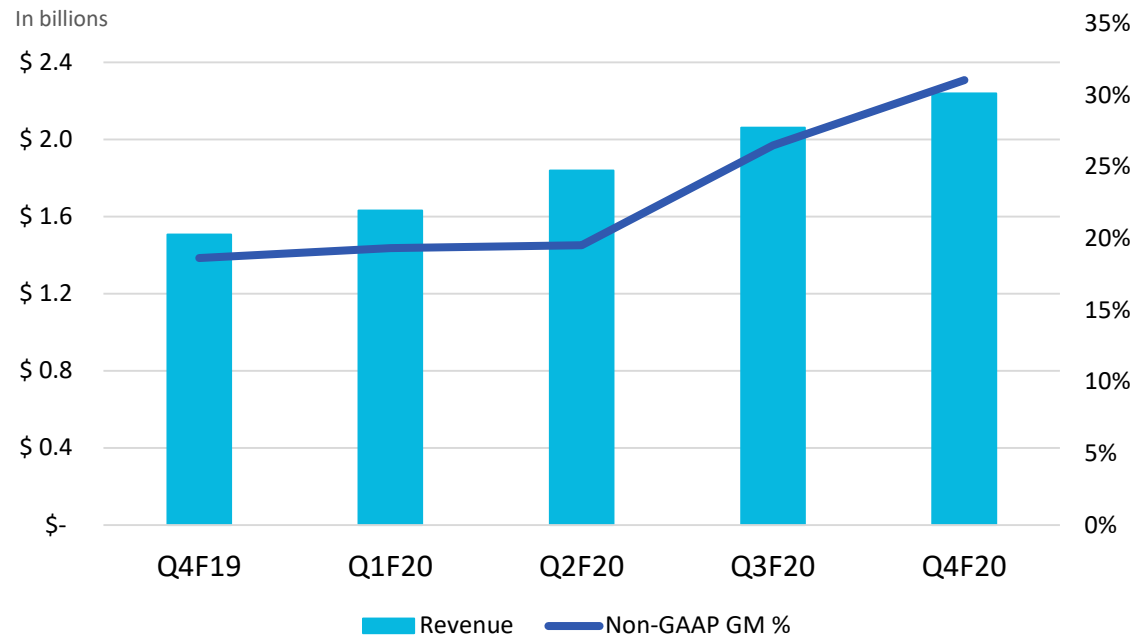


Revenue

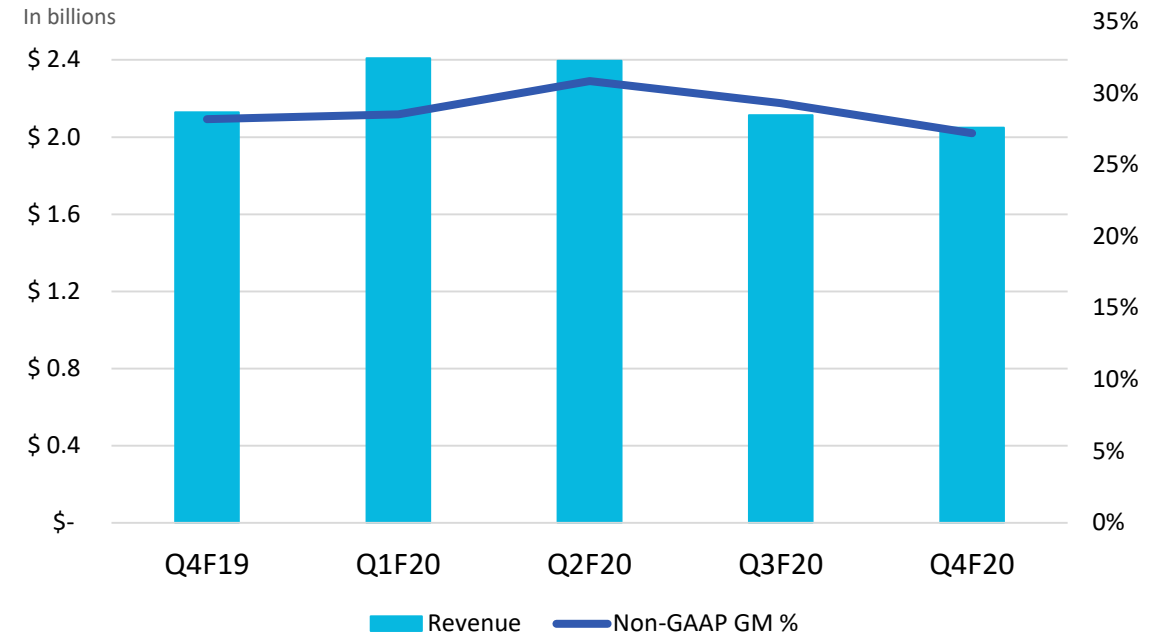
\$0.69 billion
decreased 16% QoQ
decreased 9% YoY

Flash and Hard Drive Metrics

Flash Revenue and Non-GAAP Gross Margin



Hard Drive Revenue and Non-GAAP Gross Margin



Flash

- Q4F20 Results**
- Bit shipments: up 8% sequentially
 - ASP/Gigabyte: up 1% sequentially

Hard Drive

- Q4F20 Results**
- Total exabyte shipments: down 2% sequentially
 - ASP per drive increased to \$87
 - ~30% capacity enterprise exabyte shipment growth from the prior year

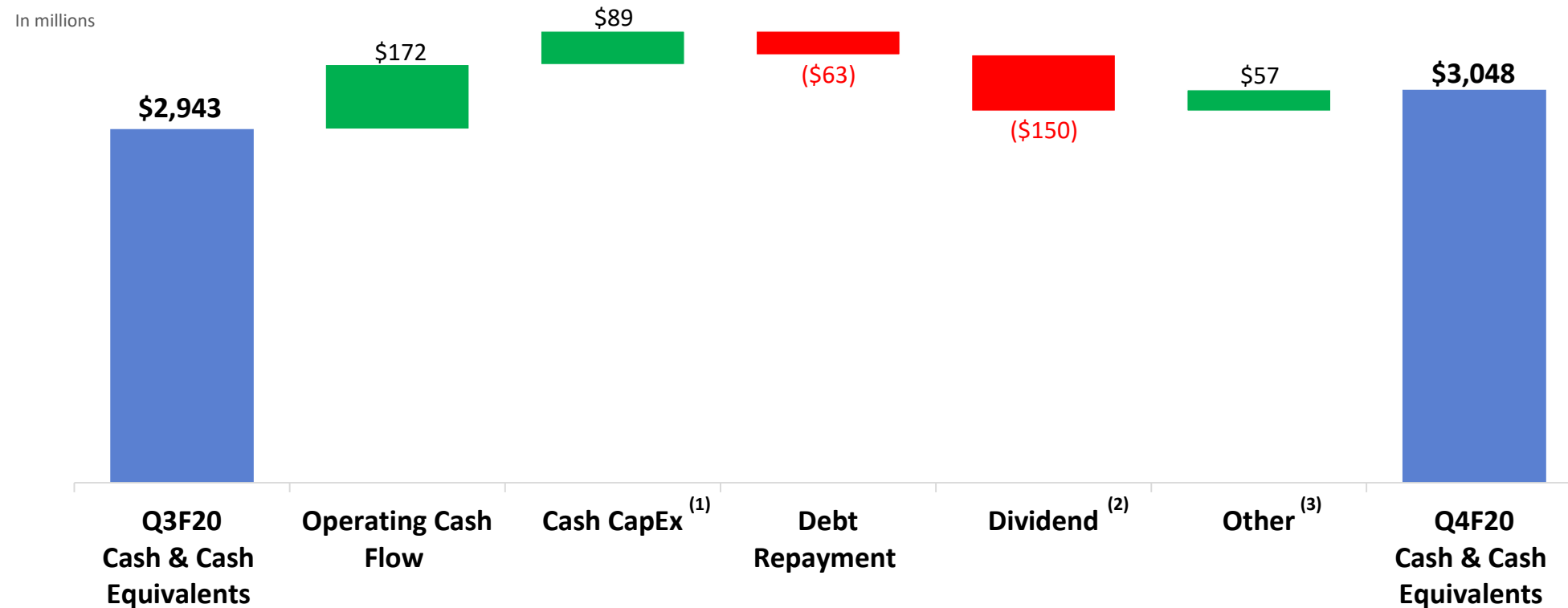
For reconciliations of GAAP to non-GAAP financial measures, see the Appendix.

Non-GAAP Financial Results

	Q4F20	Q3F20	Q4F19	QoQ	YoY
Revenue (\$M)	\$ 4,287	\$ 4,175	\$ 3,634	\$ 112	\$ 653
Gross Margin %	28.9%	27.9%	24.2%	1.0 ppt	4.7 ppt
Operating Expenses (\$M)	\$ 713	\$ 738	\$ 722	(\$ 25)	(\$ 9)
Operating Income (\$M)	\$ 527	\$ 427	\$ 158	\$ 100	\$ 369
Interest and Other Expense, net (\$M)	\$ 73	\$ 91	\$ 87	(\$ 18)	(\$ 14)
EPS	\$ 1.23	\$ 0.85	\$ 0.17	\$ 0.38	\$ 1.06
Operating Cash Flow (\$M)	\$ 172	\$ 142	\$ 169	\$ 30	\$ 3
Free Cash Flow (\$M)	\$ 261	\$ 176	(\$ 179)	\$ 85	\$ 440

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

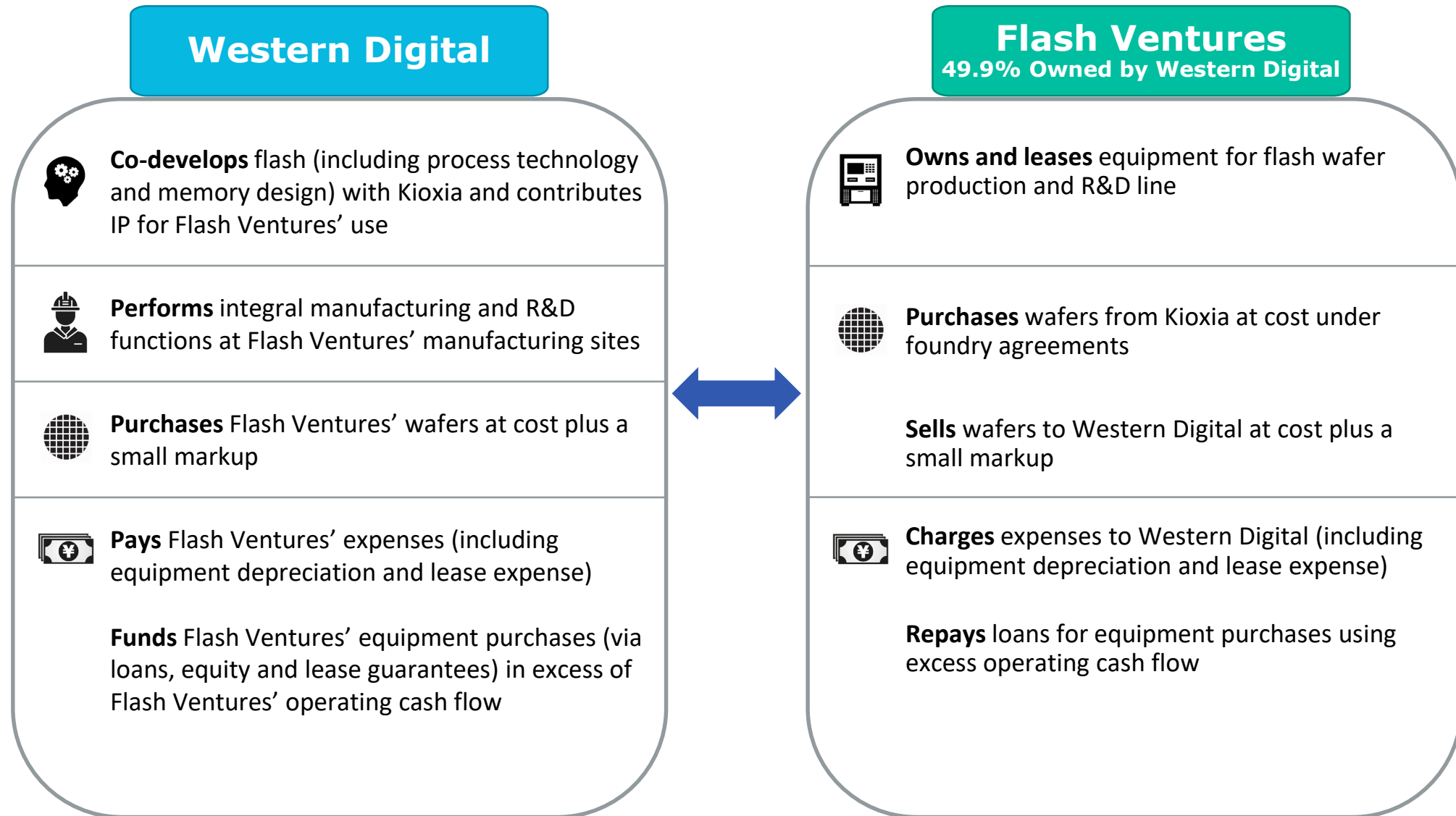
Cash Flow Walk



- Quarterly debt repayment of \$63 million
- Strong liquidity position of \$5.3 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. This was the final dividend payment issued prior to the suspension of the dividend program.
3. Other primarily consists of employee stock plans, net.

Flash Ventures Framework



Capital Expenditure Framework

Cash Capital Expenditures^(A)

$$\begin{matrix} \textcircled{1} & & \textcircled{2} & & \textcircled{3} & & & \\ \text{HDD CapEx} & + & \text{Flash Non-Fab CapEx} & + & \text{Flash Ventures Parent Loans}^{(B)} & = & \text{FY21F: } \sim \$1.3\text{B} \end{matrix}$$

Flash Ventures Capital Expenditures

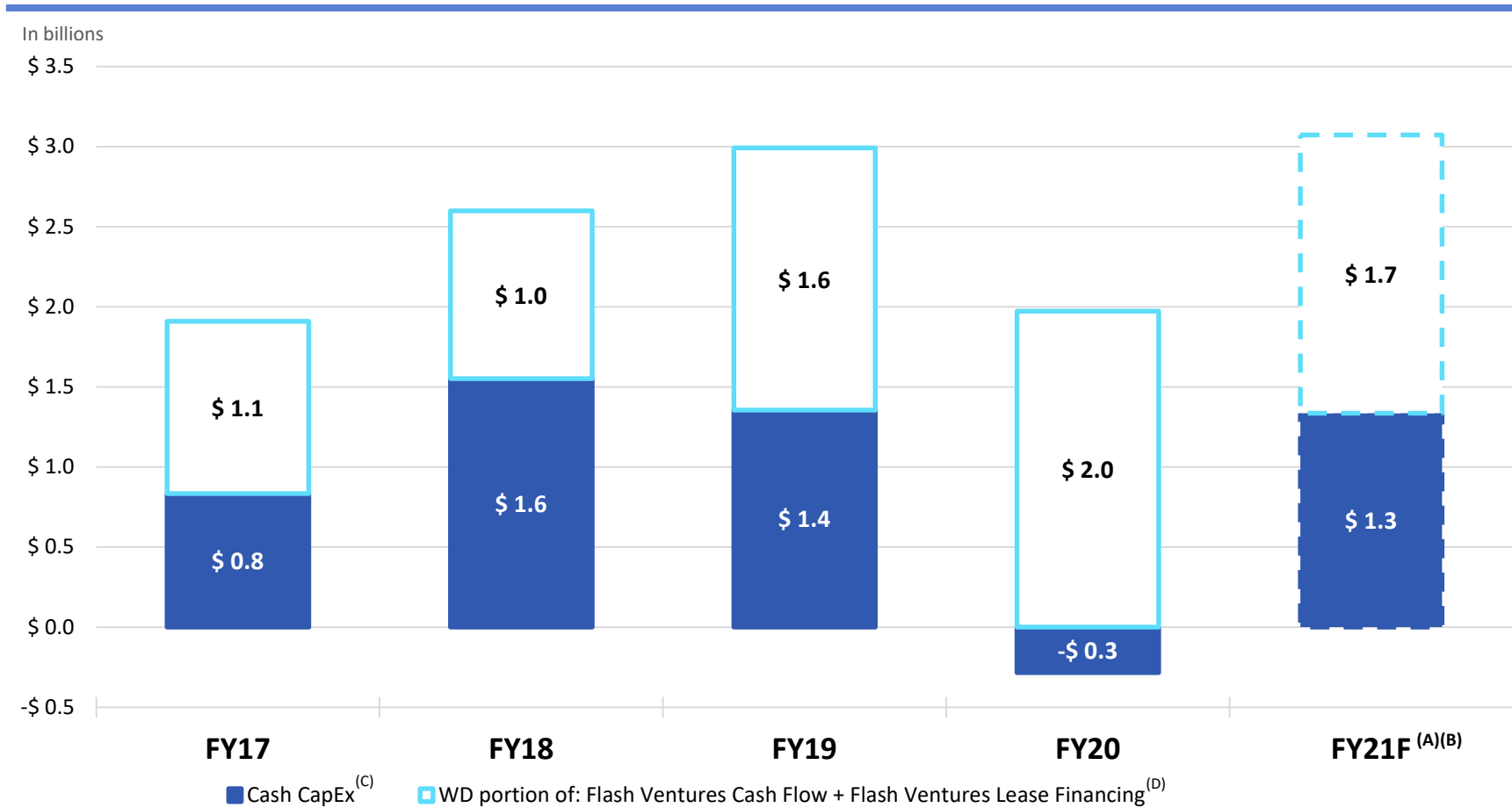
$$\begin{matrix} \textcircled{3} & & \textcircled{4} & & \textcircled{5} \\ \text{Flash Ventures Parent Loans}^{(B)} & + & \text{Flash Ventures Lease Financing}^{(B)} & + & \text{Flash Ventures Net Operating Cash Flow}^{(B)(C)} \end{matrix}$$

Gross Capital Expenditures

$$\begin{matrix} \textcircled{1} & & \textcircled{2} & & \textcircled{3} & & \textcircled{4} & & \textcircled{5} & & \\ \text{HDD CapEx} & + & \text{Flash Non-Fab CapEx} & + & \text{Flash Ventures Parent Loans}^{(B)} & + & \text{Flash Ventures Lease Financing}^{(B)} & + & \text{Flash Ventures Net Operating Cash Flow}^{(B)(C)} & = & \text{FY21F: } \sim \$3.1\text{B} \end{matrix}$$

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

Gross Capital Expenditure Trends



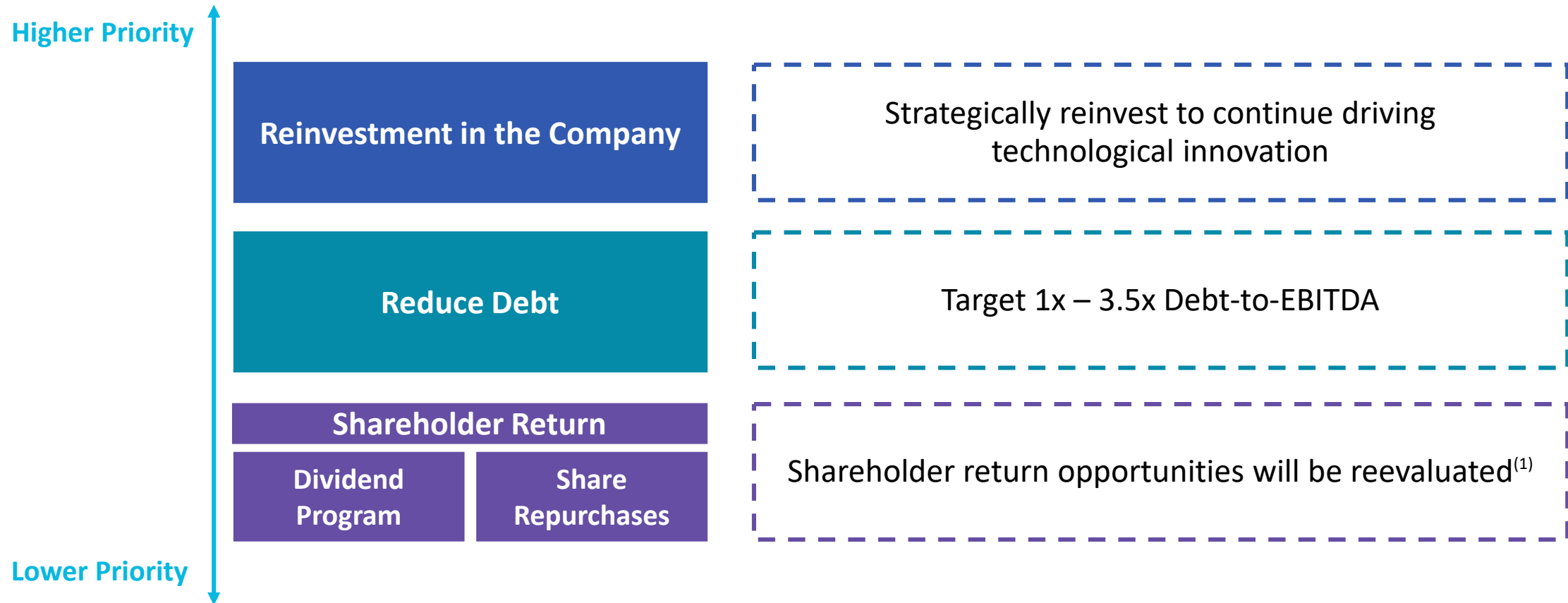
A. FY21F: Gross Capital Expenditures of ~\$3.1 billion, of which Cash Capital Expenditures = ~\$1.3 billion.

B. FY21F: Estimates may not total due to rounding.

C. 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 Ventures, net.

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

Capital Allocation Priorities



1. Dividend program was suspended as announced on April 30, 2020.

Business Outlook

Q1F21 Guidance⁽¹⁾

	GAAP ⁽²⁾	NON-GAAP ⁽²⁾
Revenue (\$B)	\$3.7 - \$3.9	\$3.7 - \$3.9
Gross Margin	21% - 23%	25% - 27%
Operating Expenses (\$M)	\$820 - \$840	\$700 - \$720
Interest and Other Expense, net (\$M)	\$80 - \$90	\$70 - \$80
Tax Rate	N/A	22% - 26% ⁽³⁾
EPS - Diluted	N/A	\$0.45 - \$0.65
Share Count – Diluted (in millions)	~ 304	~ 304

1. Guidance as shown is as of August 5, 2020.

2. 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 \$10 million of convertible debt activity. In the aggregate, non-GAAP diluted earnings per share guidance excludes these items totaling \$260 million to \$300 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.

3. 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		Q4F19	Q1F20	Q2F20	Q3F20	Q4F20
REVENUE						
	Client Devices ⁽¹⁾	\$ 1,606	\$ 1,616	\$ 1,797	\$ 1,831	\$ 1,916
	Data Center Devices & Solutions ⁽¹⁾	1,273	1,532	1,489	1,523	1,684
	Client Solutions ⁽¹⁾	755	892	948	821	687
	Total Revenue	\$ 3,634	\$ 4,040	\$ 4,234	\$ 4,175	\$ 4,287
EXABYTE METRICS						
	Q/Q Change in HDD Exabytes Sold ⁽²⁾	14%	23%	(1%)	(6%)	(2%)
	Q/Q Change in Flash Exabytes Sold ⁽²⁾	(1%)	9%	24%	7%	8%
	Q/Q Change in Total Exabytes Sold⁽²⁾	12%	22%	1%	(5%)	(1%)
TECHNOLOGY						
	HDD Revenue	\$ 2,128	\$ 2,408	\$ 2,396	\$ 2,114	\$ 2,049
	Flash Revenue	\$ 1,506	\$ 1,632	\$ 1,838	\$ 2,061	\$ 2,238
	HDD Non-GAAP Gross Margin ⁽³⁾	28.1%	28.5%	30.8%	29.3%	27.2%
	Flash Non-GAAP Gross Margin ⁽³⁾	18.7%	19.3%	19.5%	26.5%	30.5%
	Total Non-GAAP Gross Margin ⁽³⁾	24.2%	24.8%	25.9%	27.9%	28.9%
CASH						
	Cash and Cash Equivalents	\$ 3,455	\$ 3,248	\$ 3,137	\$ 2,943	\$ 3,048
CASH FLOWS						
	Cash Flows provided by Operating Activities	\$ 169	\$ 253	\$ 257	\$ 142	\$ 172
	Purchases of Property, Plant and Equipment, net	(38)	(145)	(160)	(127)	(215)
	Activity Related to Flash Ventures, net	(310)	186	280	161	304
	Free Cash Flow⁽⁴⁾	(\$ 179)	\$ 294	\$ 377	\$ 176	\$ 261
WORKING CAPITAL RELATED						
	Days Sales Outstanding	30	35	38	43	50
	Days Inventory Outstanding	94	98	86	89	87
	Days Payables Outstanding	(54)	(67)	(58)	(63)	(67)
	Cash Conversion Cycle	70	66	66	69	70
FLASH METRICS						
	Q/Q Change in ASP/Gigabytes ⁽²⁾	(6%)	0%	(8%)	5%	1%
HDD METRICS						
	Client Compute Units ⁽⁵⁾	12.3	12.9	11.8	9.1	9.4
	Non-Compute Units ⁽⁶⁾	9.2	8.9	10.3	8.0	6.9
	Data Center Units ⁽⁷⁾	6.2	7.5	7.1	7.3	6.8
	Total HDD Units⁽⁸⁾	27.7	29.3	29.2	24.4	23.1
	HDD ASP⁽⁹⁾	\$ 75	\$ 81	\$ 81	\$ 85	\$ 87

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. Data Center Devices and Solutions is comprised of enterprise HDD, enterprise SSD, data center software, data center solutions and licensing and royalties. Client Solutions is comprised of branded HDD, branded flash, removables and licensing and royalties.
2. Excludes licensing, royalties, and non-memory products.
3. For reconciliations of GAAP to non-GAAP financial measures, see the Appendix.
4. Free cash flow is 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 generated in any period to be a useful indicator of cash that is available for strategic opportunities including, among others, investing in the company's business, making strategic acquisitions, repaying debt and strengthening the balance sheet.
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 Q4F20 (\$M)	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	1.666%
Term Loan A-1 ^(D)	L+150	February 27, 2023	4,583	2.727% ^(E)
Term Loan B-4 ^(D)	L+175	April 29, 2023	1,693	1.916%
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	<u>2,300</u>	4.750%
TOTAL			\$ 9,711	2.918%^(H)

A. All-in applicable rates as of July 3, 2020. Applicable spread for Term Loan A-1 and Revolver over LIBOR based on credit ratings as of July 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 July 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 2.60% 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 July 3, 2020.

Credit Agreement Defined Leverage Ratio

In millions; unaudited; trailing 12 months	Q4F19	Q1F20	Q2F20	Q3F20	Q4F20
NET INCOME (LOSS)	(\$ 754)	(\$ 1,541)	(\$ 1,193)	(\$ 595)	(\$ 250)
Income tax expense	467	434	(35)	(110)	204
Interest and other expense, net	374	379	374	398	381
Depreciation and amortization	<u>1,812</u>	<u>1,738</u>	<u>1,665</u>	<u>1,605</u>	<u>1,566</u>
EBITDA⁽¹⁾	1,899	1,010	811	1,298	1,901
Stock-based compensation expense	306	304	302	296	308
Employee termination, asset impairment and other charges	166	128	117	49	32
Charges related to acquisitions and dispositions	0	5	7	9	9
Charges related to cost saving initiatives	22	19	18	16	9
Manufacturing underutilization charges	264	264	215	67	0
Power outage charges	145	213	213	213	68
Other	<u>66</u>	<u>66</u>	<u>57</u>	<u>17</u>	<u>(8)</u>
ADJUSTED EBITDA⁽²⁾⁽³⁾	2,868	2,009	1,740	1,965	2,319
TOTAL DEBT⁽⁴⁾	\$ 10,694	\$ 10,374	\$ 9,986	\$ 9,774	\$ 9,711
DEBT TO ADJUSTED EBITDA	3.7X	5.2X	5.7X	5.0X	4.2X
Flash Ventures equipment depreciation expenses	1,017	1,054	1,040	997	977
Other Credit Agreement Adjustments ⁽⁵⁾	<u>728</u>	<u>641</u>	<u>533</u>	<u>265</u>	<u>125</u>
CREDIT AGREEMENT DEFINED ADJUSTED EBITDA⁽⁶⁾	\$ 4,613	\$ 3,704	\$ 3,313	\$ 3,227	\$ 3,421
TOTAL DEBT⁽⁴⁾	\$ 10,694	\$ 10,374	\$ 9,986	\$ 9,774	\$ 9,711
CREDIT AGREEMENT DEFINED LEVERAGE RATIO⁽⁷⁾	2.3X	2.8X	3.0X	3.0X	2.8X

- EBITDA is defined as net income (loss) before income tax expense, interest and other expense, net, and depreciation and amortization.
- Adjusted EBITDA is defined as EBITDA (as defined above), adjusted to exclude certain expenses, gains and losses that the company believes are not indicative of its core operating results or because these exclusions are consistent with the financial models and estimates published by many analysts who follow the company and its peers. For reconciliations of GAAP to non-GAAP financial measures, see the Appendix.
- Adjusted EBITDA is not intended to reflect measures used under the company's debt agreements.
- Total Debt is the total principal balance of debt outstanding as of the end of the applicable trailing 12-month period.
- Other Credit Agreement Adjustments include other income and expenses, special charges and expected future cost savings from cost reduction initiatives as provided under the company's credit agreement applicable to Term Loan A-1 and Revolver.
- Credit Agreement Defined Adjusted EBITDA is used to measure financial covenant compliance under the company's credit agreement applicable to Term Loan A-1 and Revolver.
- Credit Agreement Defined Leverage Ratio is calculated as Total Debt divided by Credit Agreement Defined Adjusted EBITDA and is the Leverage Ratio as defined in the company's credit agreement for purposes of one of the financial covenants applicable to Term Loan A-1 and Revolver.

Net Income to Adjusted EBITDA Reconciliation

In millions; unaudited	Q4F19	Q1F20	Q2F20	Q3F20	Q4F20
NET INCOME (LOSS)	(\$ 197)	(\$ 276)	(\$ 139)	\$ 17	\$ 148
Income tax expense	(277)	39	99	29	37
Interest and other expense, net	93	108	90	107	76
Depreciation and amortization	416	406	399	384	377
EBITDA⁽¹⁾	35	277	449	537	638
Stock-based compensation expense	64	77	77	78	76
Employee termination, asset impairment and other charges	24	8	9	8	7
Charges related to acquisitions and dispositions	0	5	2	2	0
Charges related to cost saving initiatives	7	1	7	1	0
Manufacturing underutilization charges	67	0	0	0	0
Power outage charges	145	68	0	0	0
Other	25	0	(8)	0	0
ADJUSTED EBITDA⁽²⁾⁽³⁾	\$ 367	\$ 436	\$ 536	\$ 626	\$ 721
Flash Ventures equipment depreciation expenses	\$ 259	\$ 259	\$ 241	\$ 238	\$ 239

1. EBITDA is defined as net income (loss) before income tax expense, interest and other expense, net, and depreciation and amortization.
2. Adjusted EBITDA is defined as EBITDA (as defined above), adjusted to exclude certain expenses, gains and losses that the company believes are not indicative of its core operating results or because these exclusions are consistent with the financial models and estimates published by many analysts who follow the company and its peers. For reconciliations of GAAP to non-GAAP financial measures, see the Appendix.
3. Adjusted EBITDA is not intended to reflect measures used under the company's debt agreements.

Appendix

CONNECTION
ANALYSIS
DATA
SEARCHING
VERIFICATION
CODING
SENDING

GAAP to Non-GAAP Reconciliation

In millions; unaudited	Q4F19	Q3F20	Q4F20
GAAP GROSS PROFIT	\$ 465	\$ 1,005	\$ 1,083
Amortization of acquired intangible assets	166	145	144
Stock-based compensation expense	11	13	13
Charges related to cost saving initiatives	4	2	-
Manufacturing underutilization charges	67	-	-
Power outage charges	145	-	-
Other	22	-	-
NON-GAAP GROSS PROFIT	\$ 880	\$ 1,165	\$ 1,240
GAAP OPERATING EXPENSES	\$ 846	\$ 852	\$ 822
Amortization of acquired intangible assets	(41)	(40)	(39)
Stock-based compensation expense	(53)	(65)	(63)
Employee termination, asset impairment and other charges	(24)	(8)	(7)
Charges related to acquisitions and dispositions	-	(2)	-
Charges related to cost saving initiatives	(3)	1	-
Other	(3)	-	-
NON-GAAP OPERATING EXPENSES	\$ 722	\$ 738	\$ 713
GAAP OPERATING INCOME (LOSS)	(\$ 381)	\$ 153	\$ 261
Gross profit adjustments	415	160	157
Operating expense adjustments	124	114	109
NON-GAAP OPERATING INCOME	\$ 158	\$ 427	\$ 527
GAAP INTEREST AND OTHER EXPENSE, NET	(\$ 93)	(\$ 107)	(\$ 76)
Convertible debt activity	7	7	7
Other	(1)	9	(4)
NON-GAAP INTEREST AND OTHER EXPENSE, NET	(\$ 87)	(\$ 91)	(\$ 73)

GAAP to Non-GAAP Reconciliation

In millions, except per share amounts; unaudited	Q4F19	Q3F20	Q4F20
GAAP NET INCOME (LOSS)	(\$ 197)	\$ 17	\$ 148
Amortization of acquired intangible assets	207	185	183
Stock-based compensation expense	64	78	76
Employee termination, asset impairment and other charges	24	8	7
Charges related to acquisitions and dispositions	-	2	-
Charges related to cost saving initiatives	7	1	-
Manufacturing underutilization charges	67	-	-
Power outage charges	145	-	-
Convertible debt activity	7	7	7
Other	24	9	(4)
Income tax adjustments	<u>(298)</u>	<u>(50)</u>	<u>(48)</u>
NON-GAAP NET INCOME	\$ 50	\$ 257	\$ 369
DILUTED INCOME (LOSS) PER COMMON SHARE			
GAAP	(\$ 0.67)	\$ 0.06	\$ 0.49
Non-GAAP	\$ 0.17	\$ 0.85	\$ 1.23
DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING			
GAAP	294	303	301
Non-GAAP	295	303	301

GAAP to Non-GAAP Reconciliation

In millions, except percentages; unaudited	Q4F19	Q1F20	Q2F20	Q3F20	Q4F20
GROSS PROFIT	\$ 465	\$ 758	\$ 935	\$ 1,005	\$ 1,083
Amortization of acquired intangible assets	166	164	157	145	144
Stock-based compensation expense	11	12	13	13	13
Charges related to cost saving initiatives	4	-	1	2	-
Manufacturing underutilization charges	67	-	-	-	-
Power outage charges	145	68	-	-	-
Other	22	-	(8)	-	-
NON-GAAP GROSS PROFIT	\$ 880	\$ 1,002	\$ 1,098	\$ 1,165	\$ 1,240
NON-GAAP GROSS PROFIT BY PRODUCT					
HDD	\$ 599	\$ 687	\$ 739	\$ 619	\$ 557
Flash	281	315	359	546	683
TOTAL NON-GAAP GROSS PROFIT	\$ 880	\$ 1,002	\$ 1,098	\$ 1,165	\$ 1,240
REVENUE BY PRODUCT					
HDD Revenue	\$ 2,128	\$ 2,408	\$ 2,396	\$ 2,114	\$ 2,049
Flash Revenue	1,506	1,632	1,838	2,061	2,238
TOTAL REVENUE	\$ 3,634	\$ 4,040	\$ 4,234	\$ 4,175	\$ 4,287
Consolidated GAAP gross margin ⁽¹⁾	12.8%	18.8%	22.1%	24.1%	25.3%
Consolidated non-GAAP gross margin ⁽²⁾	24.2%	24.8%	25.9%	27.9%	28.9%
Non-GAAP HDD gross margin ⁽³⁾	28.1%	28.5%	30.8%	29.3%	27.2%
Non-GAAP Flash gross margin ⁽⁴⁾	18.7%	19.3%	19.5%	26.5%	30.5%

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; non-GAAP diluted income per common share; Adjusted EBTIDA; and Credit Agreement Defined Adjusted EBITDA (“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 (as applicable) 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 credit agreement 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. EBITDA and adjusted EBITDA are not intended to reflect measures used under the company’s debt agreements. Credit Agreement Defined Adjusted EBITDA also is used to measure financial covenant compliance as defined under the company’s credit agreement applicable to Term Loan A-1 and Revolver. 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 they 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 they 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 they are not a part of the ongoing operation of its business. The resulting expense or benefit is inconsistent in amount and frequency.

Other credit agreement adjustments. Other credit agreement adjustments include the company’s share of Flash Ventures’ equipment depreciation expense, other income and expenses, special charges and expected cost savings from cost reduction initiatives. The company’s share of Flash Ventures’ equipment depreciation expense was approximately 80% of Other Credit Agreement Adjustments for the trailing 12 months Q4F20.

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.