

Fiscal Second Quarter 2022 Financial Results

Western Digital

January 27, 2022

(Updated HDD revenue chart on slide 5 on January 31, 2022, all other data unchanged)

Forward Looking Statements

SAFE HARBOR

This presentation contains forward-looking statements within the meaning of federal securities laws, including statements regarding expectations for the company's business outlook for the fiscal third quarter of 2022; and capital allocation priorities. 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.

Material risks and uncertainties include future responses to and effects of the COVID-19 pandemic; volatility in global economic conditions; impact of business and market conditions; impact of competitive products and pricing; our development and introduction of products based on new technologies and expansion into new data storage markets; risks associated with cost saving initiatives, restructurings, acquisitions, divestitures, mergers, joint ventures and our strategic relationships; difficulties or delays in manufacturing or other supply chain disruptions; hiring and retention of key employees; our substantial level of debt and other financial obligations; changes to our relationships with key customers; disruptions in operations from cyberattacks or other system security risks; actions by competitors; risks associated with compliance with changing legal and regulatory requirements and 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 Form 10-K filed with the SEC on August 27, 2021, to which your attention is directed. You should not place undue reliance on these forward-looking statements, which speak only as of the date hereof, and the company undertakes no obligation to update or revise these forward-looking statements to reflect new information or events, except as required by law.

This presentation also contains preliminary financial results for the company's second quarter ended December 31, 2021. These preliminary financial results represent the most current information available to management. The company's actual results when disclosed in its Form 10-Q for the quarter ended December 31, 2021 may differ from these preliminary results as a result of the completion of the company's financial closing procedures; final adjustments; completion of the review by the company's independent registered accounting firm; and other developments that may arise between now and disclosure of the final results.

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

Financial Results

- Revenue of \$4.8B
- Non-GAAP diluted net earnings per share of \$2.30
- Non-GAAP gross margin of 33.6%
- Operating cash flow of \$666M
- Free cash flow of \$407M
- Cash and cash equivalents of \$2.5B

Corporate

- Received an investment grade corporate rating from Fitch in December 2021.
- Reduced total debt by \$2.4 billion in the last 18 months.

Flash

- Revenue growth was driven by seasonal strength in mobile and consumer. Within mobile, shipments of our BiCS5 products into leading 5G smartphones increased over 60% sequentially and 50% year-over-year, led by strong content growth.
- Enterprise SSD products are qualified at three cloud titans and two major storage OEMs.
- Client SSD revenue declined sequentially due to supply chain disruptions at some of our PC customers and pricing pressure in the more transactional markets.

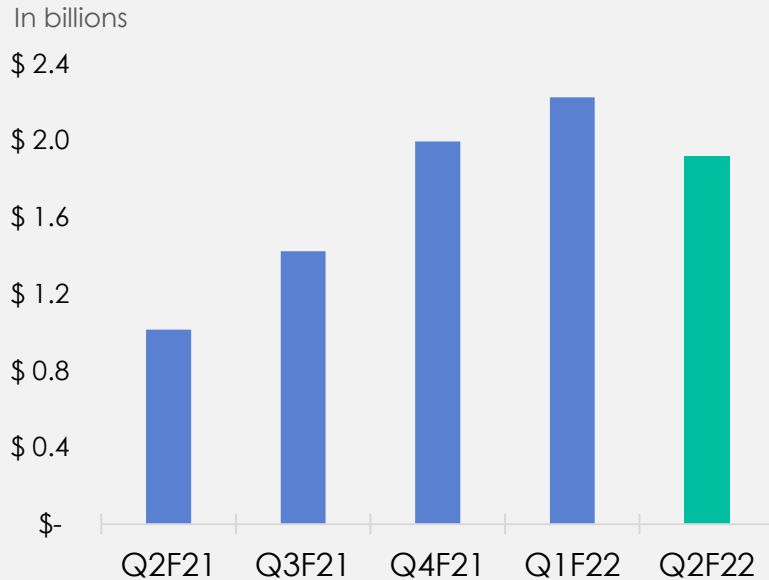
Hard Drives

- Supply chain disruptions impacted cloud hard drive deployments at certain customers, which led to a sequential decline in exabyte shipments.
- Healthy overall demand for capacity enterprise drives, along with Western Digital's leadership position at the 18 terabyte capacity point, drove a >50% year-over-year increase in exabyte shipments.
- Commenced shipments of 20 terabyte hard drives based on OptiNAND technology.

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

Revenue Trends by End Market

Cloud



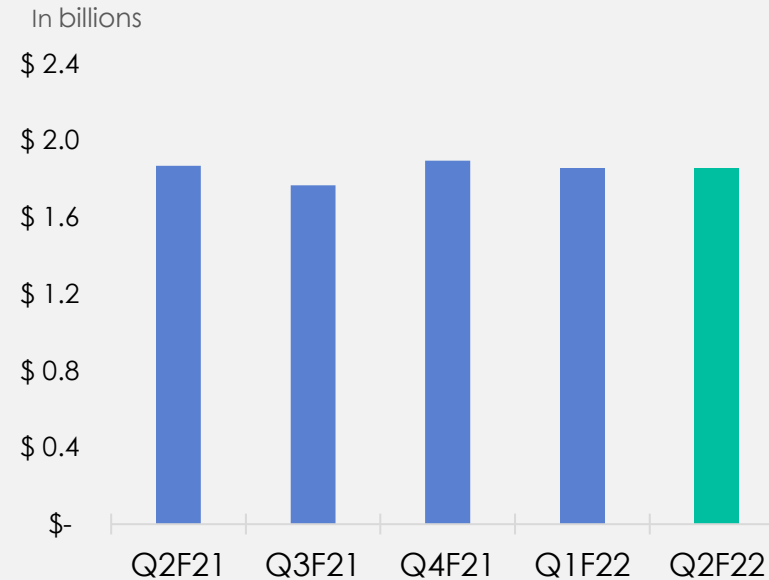
Revenue

\$1.9 billion

Decreased 14% QoQ

Increased 89% YoY

Client



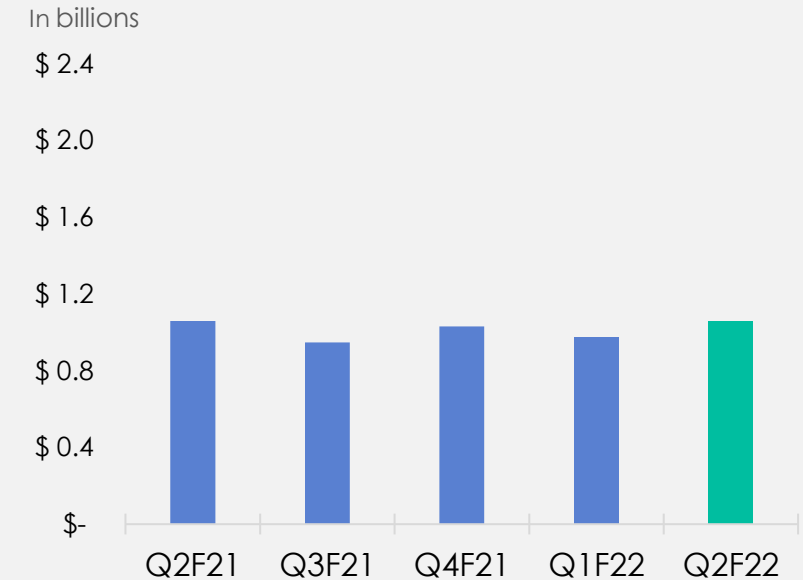
Revenue

\$1.9 billion

Flat QoQ

Decreased 1% YoY

Consumer



Revenue

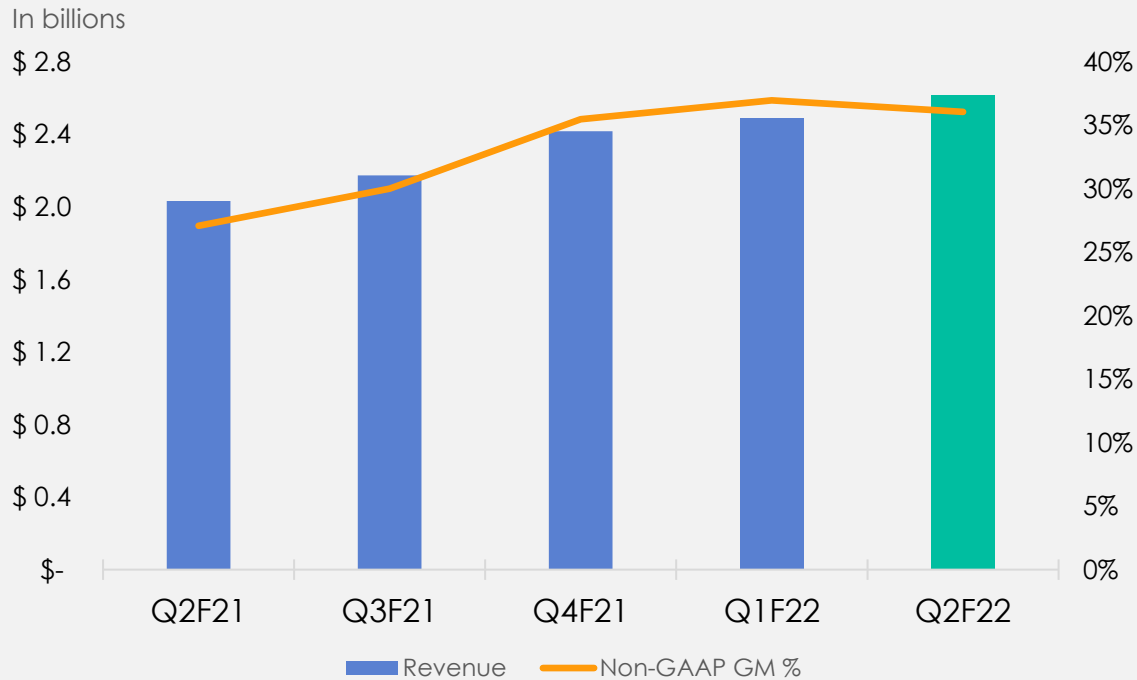
\$1.1 billion

Increased 9% QoQ

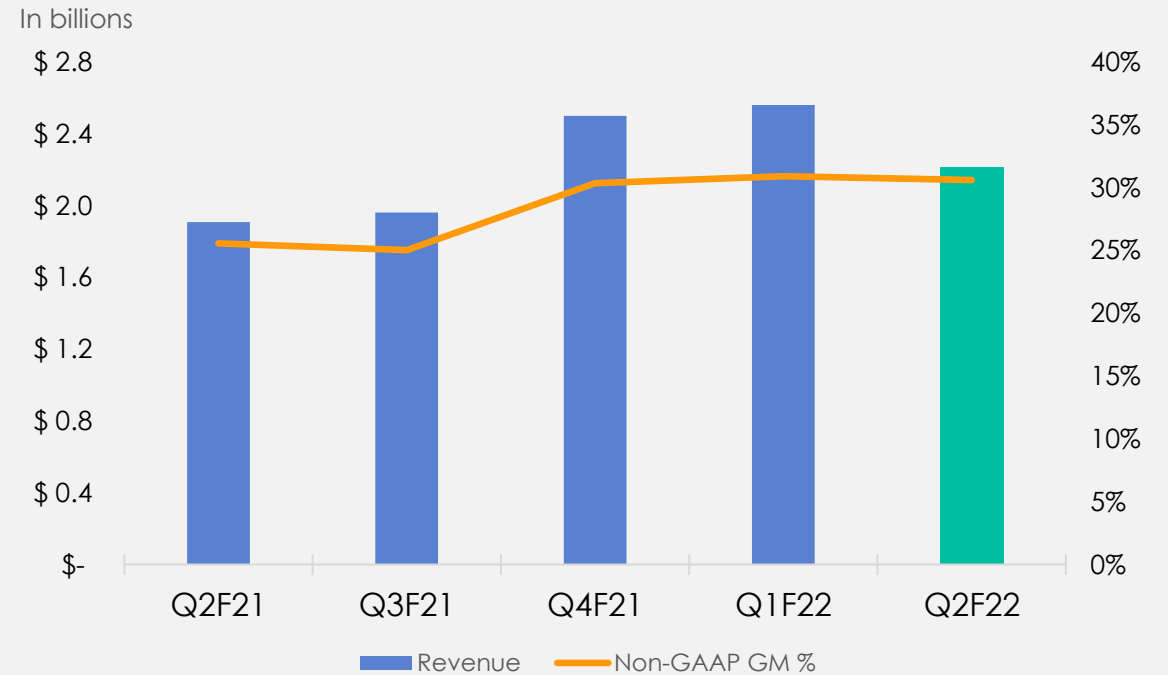
Flat YoY

Flash and Hard Drive Metrics

Flash Revenue and Gross Margin



Hard Drive Revenue and Gross Margin



Flash

Q2F22 Results

- Bit shipments: increased 13% QoQ
- ASP/Gigabyte:
 - Blended: declined 6% QoQ
 - Like-for-like: declined 3% QoQ

Hard Drive

Q2F22 Results

- Exabyte shipments: decreased 14% QoQ
- ASP per drive: \$97
- COVID impact: \$60 million

For reconciling information related to our operating segment results, see the Appendix.

Non-GAAP Financial Results

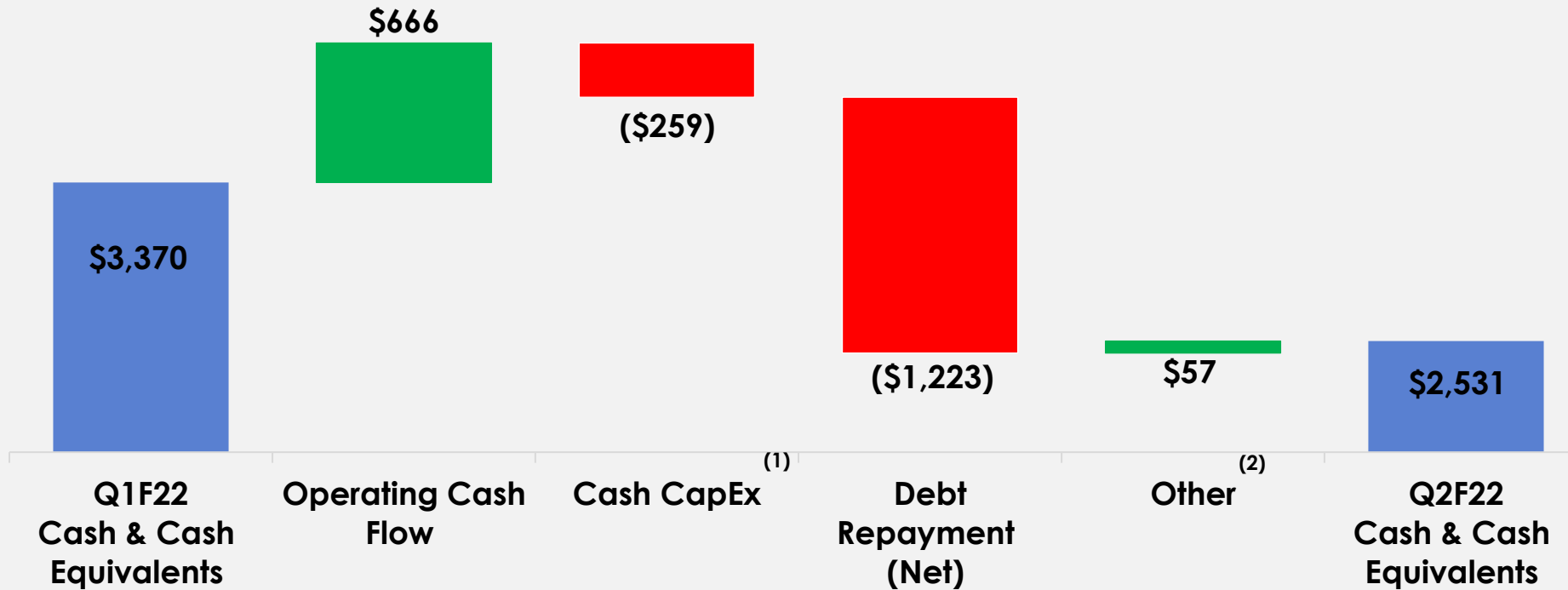
	Q2F21	Q1F22	Q2F22	QoQ	YoY
Revenue (\$M)	\$ 3,943	\$ 5,051	\$ 4,833	(\$ 218)	\$ 890
Gross Margin %	26.4%	33.9%	33.6%	(0.3) ppt	7.2 ppt
Operating Expenses (\$M)	\$ 696	\$ 761	\$ 741	(\$ 20)	\$ 45
Operating Income (\$M)	\$ 343	\$ 952	\$ 882	(\$ 70)	\$ 539
Interest and Other Expense, net (\$M)	\$ 68	\$ 68	\$ 68	\$ -	\$ -
EPS - Diluted	\$ 0.69	\$ 2.49	\$ 2.30	(\$ 0.19)	\$ 1.61
Operating Cash Flow (\$M)	\$ 425	\$ 521	\$ 666	\$ 145	\$ 241
Free Cash Flow (\$M)	\$ 149	\$ 224	\$ 407	\$ 183	\$ 258

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

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Cash Flow Walk

In millions



- Net debt repayment of \$1.22 billion and completed a debt refinancing transaction
- Strong liquidity position of \$4.78 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 and strategic investments and other, net.

Fiscal Third Quarter Guidance⁽¹⁾

	GAAP ⁽²⁾	NON-GAAP ⁽²⁾
Revenue (\$B)	\$ 4.45 - \$ 4.65	\$ 4.45 - \$ 4.65
Gross Margin %	30.0% - 32.0%	30.0% - 32.0%
Operating Expenses (\$M)	\$ 860 - \$ 880	\$ 750 - \$ 770
Interest and Other Expense, net (\$M)	~ \$ 80	~ \$ 70
Tax Rate %	N/A	~11% ⁽³⁾
EPS – Diluted	N/A	\$ 1.50 - \$ 1.80
Share Count - Diluted (in millions)	~ 318	~ 318

1. Guidance as shown is as of January 27, 2022.

2. Non-GAAP gross margin guidance excludes amortization of acquired intangible assets and stock-based compensation expense, totaling approximately \$10 million to \$20 million. The company's non-GAAP operating expenses guidance excludes amortization of acquired intangible assets; stock-based compensation expense; and employee termination, asset impairment and other charges, 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 \$120 million to \$150 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.

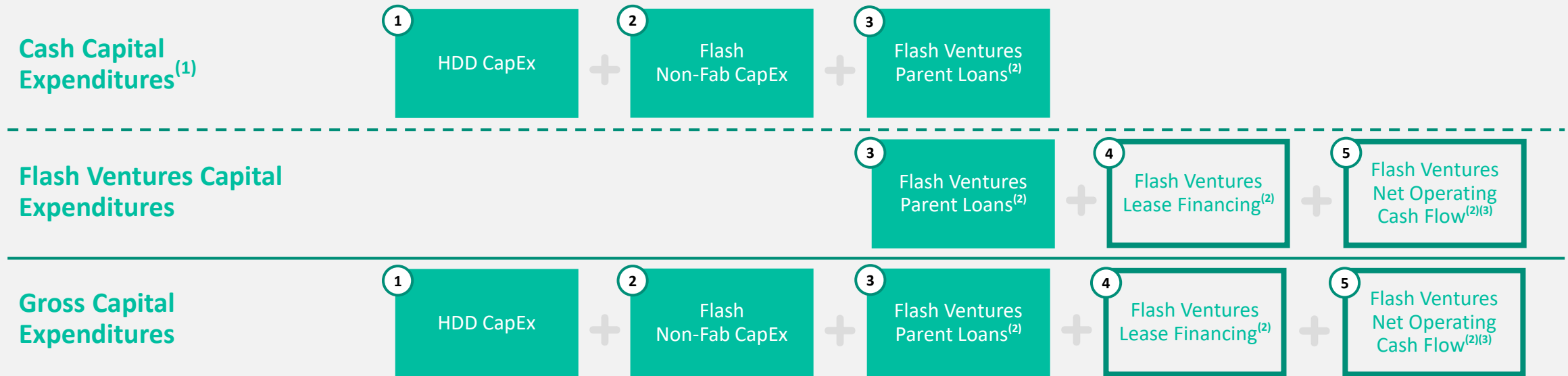
3. The non-GAAP tax rate is provided based on a percentage of non-GAAP pre-tax income. Due to differences in the tax treatment of items excluded from our non-GAAP net income and because our tax rate is based on an estimated forecasted annual GAAP tax rate, our estimated non-GAAP tax rate may differ from our GAAP tax rate and from our actual tax rates.

Joint Venture Operational Framework

For more information on Flash Ventures, please visit investor.wdc.com for a recently published Flash Ventures presentation.

Western Digital	Flash Ventures 49.9% Owned by Western Digital 50.1% Owned by Kioxia	KIOXIA
Co-develops flash (including process technology and memory design) with Kioxia and contributes IP for Flash Ventures' use	Owns and leases equipment for flash wafer production and R&D line	Co-develops flash (including process technology and memory design) with Western Digital and contributes IP for Flash Ventures' use
Performs integral manufacturing and R&D functions at Flash Ventures' manufacturing sites	Purchases wafers from Kioxia at cost under foundry agreements	Performs integral manufacturing and R&D functions at Flash Ventures' manufacturing sites
Purchases Flash Ventures' wafers at cost plus a small markup	Sells wafers to Western Digital and Kioxia at cost plus a small markup	Purchases Flash Ventures' wafers at cost plus a small markup
Pays Flash Ventures' expenses (including equipment depreciation and lease expense)	Charges expenses to Western Digital and Kioxia (including equipment depreciation and lease expense)	Pays Flash Ventures' expenses (including equipment depreciation and lease expense)
Funds Flash Ventures' equipment purchases (via loans, equity and lease guarantees) in excess of Flash Ventures' operating cash flow	Borrows from Western Digital and Kioxia for a portion of their equipment purchases	Funds Flash Ventures' equipment purchases (via loans, equity, and lease guarantees) in excess of Flash Ventures' operating cash flow
	Repays loans for equipment purchases using excess operating cash flow	Owns and operates cleanrooms
		Provides wafer manufacturing services to Flash Ventures at cost

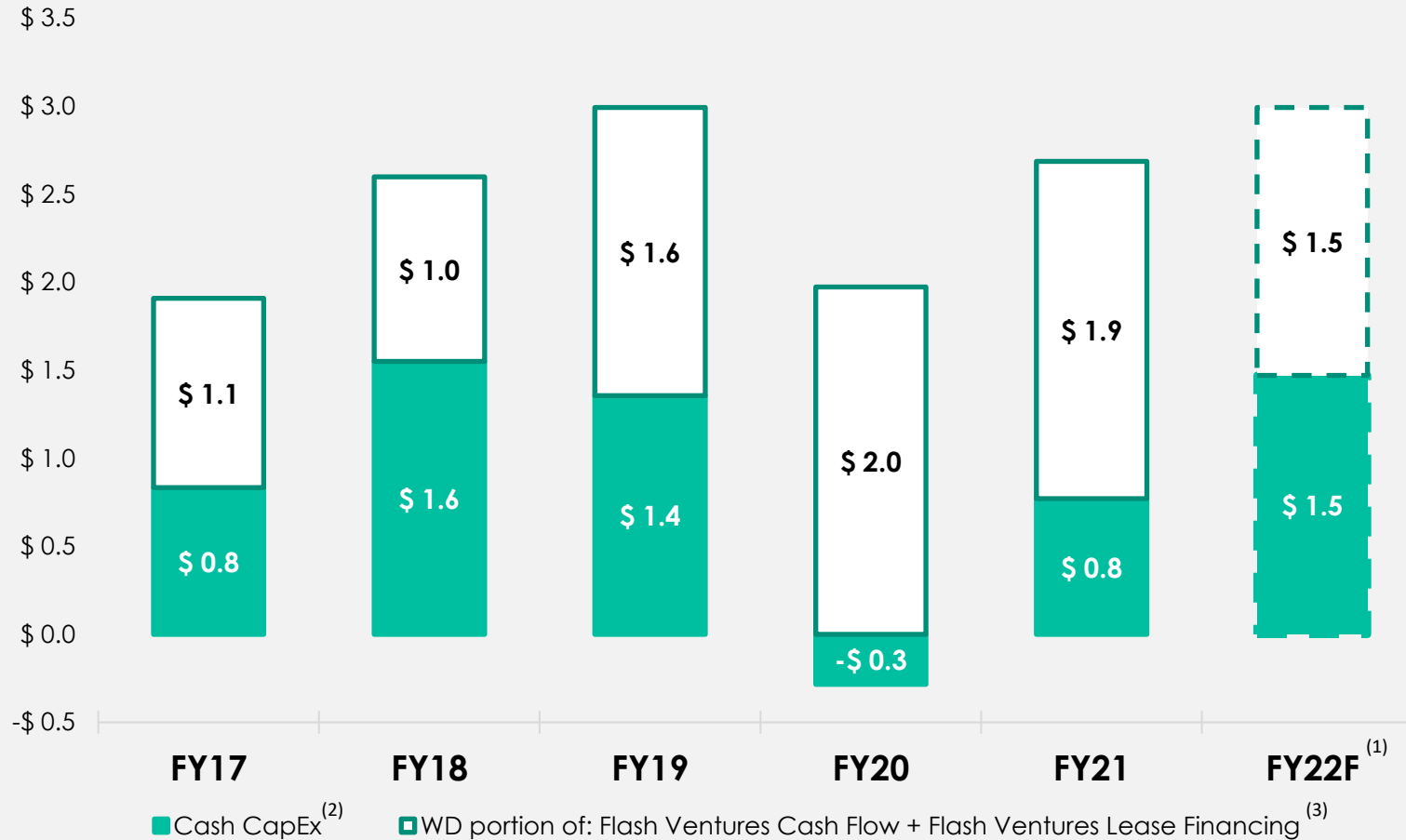
Capital Expenditure Framework



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

Gross Capital Expenditure Trends

In billions

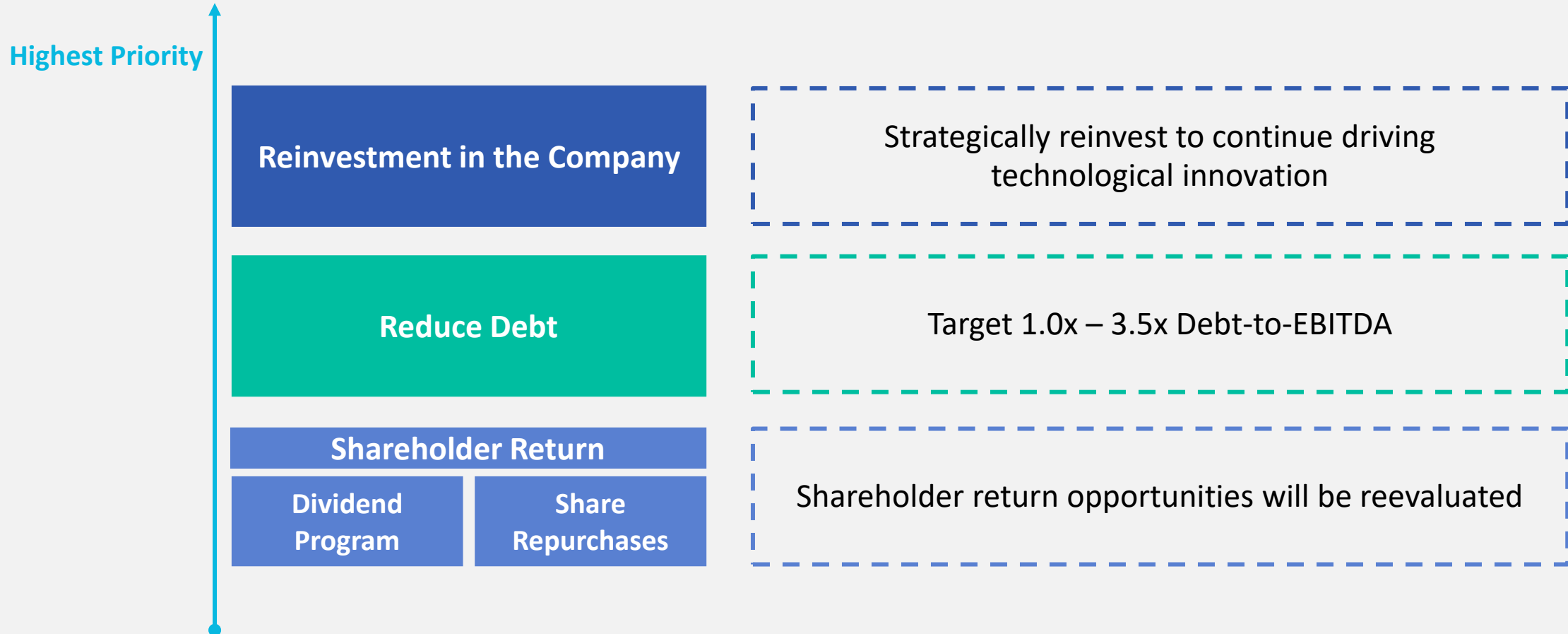


1. FY22F: Gross Capital Expenditures of ~\$3.0 billion, of which Cash Capital Expenditures = ~\$1.5 billion.

2. Cash Capital Expenditures includes purchases of property, plant and equipment, net, and the activity related to Flash Ventures, net.

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

Capital Allocation Priorities



Appendix



Quarterly Fact Sheet

In millions, except Average Selling Price (ASP), percentages, and working capital related metrics	Q2F21	Q3F21	Q4F21	Q1F22	Q2F22
Revenue by End Market⁽¹⁾					
Client	\$ 1,869	\$ 1,767	\$ 1,895	\$ 1,853	\$ 1,854
Cloud	1,014	1,423	1,995	2,225	1,920
Consumer	<u>1,060</u>	<u>947</u>	<u>1,030</u>	<u>973</u>	<u>1,059</u>
Total Revenue	\$ 3,943	\$ 4,137	\$ 4,920	\$ 5,051	\$ 4,833
Segment Results					
HDD Revenue	\$ 1,909	\$ 1,962	\$ 2,501	\$ 2,561	\$2,213
Flash Revenue	<u>2,034</u>	<u>2,175</u>	<u>2,419</u>	<u>2,490</u>	<u>2,620</u>
Total Revenue	\$ 3,943	\$ 4,137	\$ 4,920	\$ 5,051	\$ 4,833
HDD Gross Margin ⁽²⁾	25.6%	25.0%	30.3%	30.9%	30.6%
Flash Gross Margin ⁽²⁾	27.1%	30.0%	35.5%	37.0%	36.1%
Total Non-GAAP Gross Margin ⁽²⁾	26.4%	27.7%	32.9%	33.9%	33.6%
Exabyte Metrics					
QoQ Change in HDD Exabytes Sold ⁽³⁾	2%	7%	34%	4%	(14%)
QoQ Change in Flash Exabytes Sold ⁽³⁾	7%	8%	4%	8%	13%
QoQ Change in Total Exabytes Sold ⁽³⁾	3%	7%	30%	4%	(11%)
Flash Metrics					
QoQ Change in ASP/Gigabytes ⁽³⁾	(9%)	(2%)	7%	(3%)	(6%)
HDD Metrics					
Client Units	11.2	9.4	9.3	7.8	6.7
Cloud Units	8.2	8.6	11.0	11.4	9.8
Consumer Units	<u>6.2</u>	<u>5.2</u>	<u>5.0</u>	<u>4.9</u>	<u>5.1</u>
Total HDD Units⁽⁴⁾	25.7	23.2	25.4	24.1	21.6
HDD ASP ⁽⁵⁾	\$ 73	\$ 82	\$ 97	\$ 102	\$ 97
Cash and Cash Equivalents	\$ 2,956	\$ 2,734	\$ 3,370	\$ 3,290	\$ 2,531
Cash Flows					
Cash Flows provided by Operating Activities	\$ 425	\$ 116	\$ 994	\$ 521	\$ 666
Purchases of Property, Plant and Equipment, net	(207)	(162)	(304)	(245)	(294)
Activity Related to Flash Ventures, net	<u>(69)</u>	<u>35</u>	<u>102</u>	<u>(52)</u>	<u>35</u>
Free Cash Flow⁽⁶⁾	\$ 149	(\$ 11)	\$ 792	\$ 224	\$ 407
Working Capital Related					
Days Sales Outstanding	42	42	42	44	52
Days Inventory Outstanding	109	110	98	95	102
Days Payables Outstanding	<u>(71)</u>	<u>(66)</u>	<u>(63)</u>	<u>(61)</u>	<u>(68)</u>
Cash Conversion Cycle	80	86	77	78	86

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 is primarily comprised of products sold directly to OEMs or via distribution. Cloud is primarily comprised of products sold for public or private cloud environments. Consumer is primarily comprised of retail and other end-user products.
2. Refer to the GAAP to non-GAAP reconciliation and supplemental operating segment slides within the Appendix for further details.
3. Excludes licensing, royalties, and non-memory products.
4. HDD Unit volume excludes data storage systems and media.
5. 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.
6. 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.

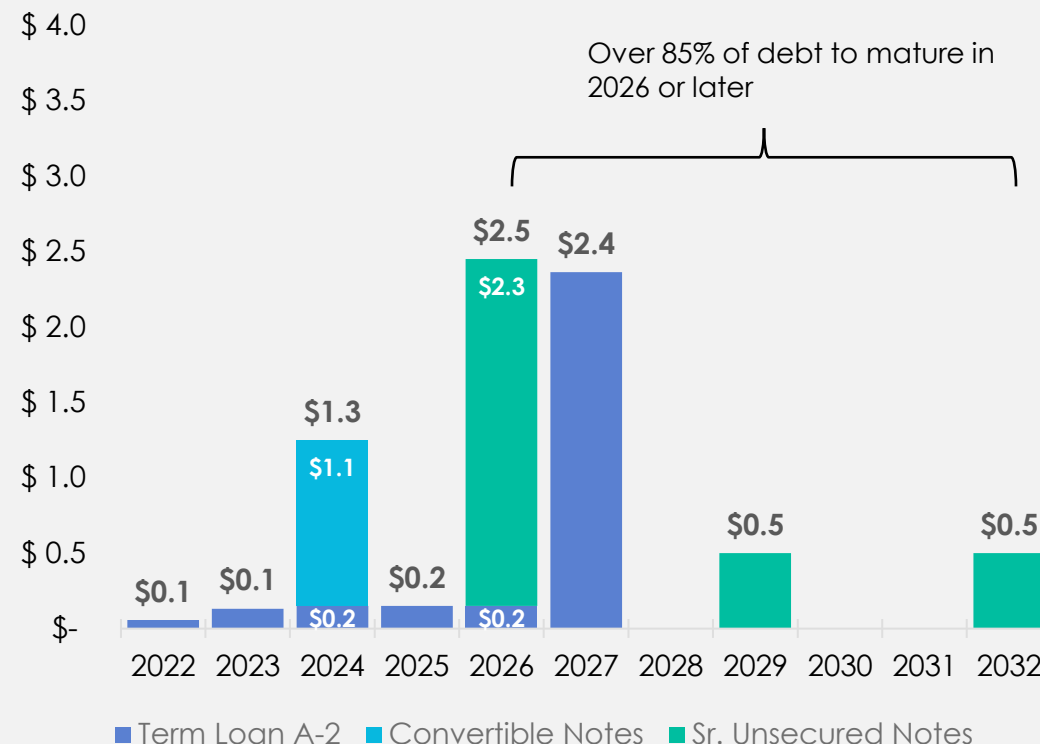
Debt Capital Structure Post Refinancing

Current Cap Table

Debt	Rate ⁽¹⁾	All-in Rate ⁽²⁾	Maturity	As of Jan 7, 2022 (in millions)
Convertible Debt Due 2024 ⁽³⁾	1.50%	1.50%	2/1/2024	\$ 1,100
Sr. Unsecured Notes Due 2026 ⁽⁴⁾	4.75%	4.75%	2/15/2026	2,300
\$2.25B Revolver ⁽⁵⁾	S+137.5	1.53%	1/7/2027	0
Term Loan A-2	S+137.5	3.16% ⁽⁶⁾	1/7/2027	3,000
Sr. Unsecured Notes Due 2029 ⁽⁷⁾	2.85%	2.85%	2/1/2029	500
Sr. Unsecured Notes due 2032 ⁽⁸⁾	3.10%	3.10%	2/1/2032	500
Total Debt		3.38%^(6,9)		\$ 7,400

- Received Investment Grade Corporate rating from Fitch
- 100% unsecured structure
- Extended weighted average maturity by ~2.5 years

Debt Maturity Profile (in billions)



1. S = Adjusted Term SOFR
2. All-in rates as of January 7, 2022. Applicable margin for Term Loan A-2 and Revolver over Adjusted Term SOFR based on credit ratings as of January 7, 2022
3. Initial conversion price of \$121.91 per share. Notes became callable on February 5, 2021
4. Notes are callable beginning November 15, 2025
5. Revolver capacity: \$2.25 billion, none of which was drawn as of December 31, 2021
6. Reflects impact of the pre-existing LIBOR-based interest rate swaps that expire in February 2023 on \$2 billion principal amount of debt
7. Notes are callable beginning December 1, 2028
8. Notes are callable beginning November 1, 2031
9. Weighted average interest rate, based on principal balances outstanding as of January 7, 2022

Debt Tranches and Interest Rates

(Based on Debt Capital Structure as of December 31, 2021)

Debt	Base Rate	Maturity	Principal Balance Outstanding end of Q2F22 (in millions)	Applicable Rates ⁽¹⁾
Revolver drawn ⁽²⁾⁽³⁾⁽⁴⁾	L+137.5	February 27, 2023	\$ 0	1.452%
Term Loan A-1 ⁽³⁾⁽⁴⁾	L+137.5	February 27, 2023	3,000	3.132% ⁽⁵⁾
Convertible Debt Due 2024 ⁽⁶⁾	1.500%	February 1, 2024	1,100	1.500%
Sr. Unsecured Notes Due 2026 ⁽⁷⁾	4.750%	February 15, 2026	2,300	4.750%
Sr. Unsecured Notes Due 2029 ⁽⁸⁾	2.850%	February 1, 2029	500	2.850%
Sr. Unsecured Notes Due 2032 ⁽⁹⁾	3.100%	February 1, 2032	<u>500</u>	3.100%
Total			\$ 7,400	3.371%⁽¹⁰⁾

- All-in applicable rates as of December 31, 2021. Applicable margin for Term Loan A-1 and Revolver over LIBOR based on credit ratings as of December 31, 2021
- Revolver capacity: \$2.25 billion, none of which was drawn as of December 31, 2021
- Term Loan A-1 and Revolver have a LIBOR floor of 0bps
- On January 7, 2022, the Company replaced the existing Revolver and Term Loan A-1 due 2023 with a new 5-year \$2.25 billion Revolver and \$3.00 billion Term Loan A-2 due 2027. The new Revolver and Term Loan A-2 bear interest at a rate equal to Adjusted Term SOFR plus an applicable margin based on credit ratings (applicable margin was 1.375% as of January 7, 2022)
- Reflects impact of the interest rate swaps that effectively fix LIBOR on \$2 billion of floating-rate debt at 2.60% through February 2023
- Initial conversion price of \$121.91 per share. Notes became callable on February 5, 2021
- Notes are callable beginning November 15, 2025
- Notes are callable beginning December 1, 2028
- Notes are callable beginning November 1, 2031
- Weighted average interest rate, including impact of interest rate swaps, based on principal balances outstanding as of December 31, 2021

Credit Agreement Defined Leverage Ratio

In millions; unaudited; trailing 12 months	Q2F21	Q3F21	Q4F21	Q1F22	Q2F22
Net Income	\$ 167	\$ 347	\$ 821	\$ 1,491	\$ 1,993
Income tax expense	146	169	106	143	202
Interest and other expense, net	329	290	293	294	302
Depreciation and amortization	1,471	1,338	1,212	1,088	994
EBITDA⁽¹⁾	\$ 2,113	\$ 2,144	\$ 2,432	\$ 3,016	\$ 3,491
Stock-based compensation expense	\$ 310	\$ 315	\$ 318	\$ 318	\$ 325
Employee termination, asset impairment and other charges	40	(36)	(47)	(52)	(52)
Charges related to a power outage incident and related recovery	(75)	(75)	(75)	(45)	0
Other	3	2	3	6	8
Adjusted EBITDA⁽²⁾⁽³⁾	\$ 2,391	\$ 2,350	\$ 2,632	\$ 3,243	\$ 3,772
Total Debt⁽⁴⁾	\$ 9,250	\$ 9,037	\$ 8,825	\$ 8,612	\$ 7,400
Debt to Adjusted EBITDA	3.9X	3.8X	3.4X	2.7X	2.0X
Flash Ventures equipment depreciation expenses	\$ 1,006	\$ 1,039	\$ 1,035	\$ 1,017	\$ 1,004
Other Credit Agreement Adjustments ⁽⁵⁾	64	62	(50)	(58)	9
Credit Agreement Defined Adjusted EBITDA⁽⁶⁾	\$ 3,461	\$ 3,451	\$ 3,617	\$ 4,202	\$ 4,785
Total Debt⁽⁴⁾	\$ 9,250	\$ 9,037	\$ 8,825	\$ 8,612	\$ 7,400
Credit Agreement Defined Leverage Ratio⁽⁷⁾	2.7X	2.6X	2.4X	2.0X	1.5X

- EBITDA is defined as net income 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. See the GAAP to non-GAAP reconciliation slides within the Appendix for further details.
- 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	Q2F21	Q3F21	Q4F21	Q1F22	Q2F22
Net Income	\$ 62	\$ 197	\$ 622	\$ 610	\$ 564
Income Tax Expense	23	52	(26)	94	82
Interest And Other Expense, Net	73	68	79	74	81
Depreciation And Amortization	336	251	251	250	242
EBITDA⁽¹⁾	\$ 494	\$ 568	\$ 926	\$ 1,028	\$ 969
Stock-based Compensation Expense	\$ 80	\$ 83	\$ 79	\$ 76	\$ 87
Employee Termination, Asset Impairment And Other Charges	2	(68)	(4)	18	2
Charges related to a power outage incident and related recovery	(45)	0	0	0	0
Other	0	2	2	2	2
Adjusted EBITDA⁽²⁾⁽³⁾	\$ 531	\$ 585	\$ 1,003	\$ 1,124	\$ 1,060
Flash Ventures Equipment Depreciation Expenses	\$ 267	\$ 271	\$ 235	\$ 244	\$ 254

1. EBITDA is defined as net income 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. See the GAAP to non-GAAP reconciliation slides within the Appendix for further details.
3. Adjusted EBITDA is not intended to reflect measures used under the company's debt agreements.

GAAP to Non-GAAP Reconciliation

In millions; unaudited	Q2F21	Q1F22	Q2F22
GAAP Gross Profit	\$ 960	\$ 1,665	\$ 1,583
Amortization of acquired intangible assets	109	39	26
Stock-based compensation expense	15	9	14
Charges related to a power outage incident and related recovery	(45)	-	-
Non-GAAP Gross Profit	\$ 1,039	\$ 1,713	\$ 1,623
GAAP Operating Expenses	\$ 802	\$ 887	\$ 856
Amortization of acquired intangible assets	(39)	(39)	(38)
Stock-based compensation expense	(65)	(67)	(73)
Employee termination, asset impairment and other charges	(2)	(18)	(2)
Other	-	(2)	(2)
Non-GAAP Operating Expenses	\$ 696	\$ 761	\$ 741
GAAP Operating Income	\$ 158	\$ 778	\$ 727
Gross profit adjustments	79	48	40
Operating expense adjustments	106	126	115
Non-GAAP Operating Income	\$ 343	\$ 952	\$ 882
GAAP Interest and Other Expense, Net	(\$ 73)	(\$ 74)	(\$ 81)
Convertible debt activity	7	7	8
Other	(2)	(1)	5
Non-GAAP Interest and Other Expense, Net	(\$ 68)	(\$ 68)	(\$ 68)

GAAP to Non-GAAP Reconciliation

In millions, except per share amounts; unaudited	Q2F21	Q1F22	Q2F22
GAAP Net Income	\$ 62	\$ 610	\$ 564
Amortization of acquired intangible assets	148	78	64
Stock-based compensation expense	80	76	87
Employee termination, asset impairment and other charges	2	18	2
Charges related to a power outage incident and related recovery	(45)	-	-
Convertible debt activity	7	7	8
Other	(2)	1	7
Income tax adjustments	(40)	(3)	(8)
Non-GAAP Net Income	\$ 212	\$ 787	\$ 724
Diluted Income Per Common Share			
GAAP	\$ 0.20	\$ 1.93	\$ 1.79
Non-GAAP	\$ 0.69	\$ 2.49	\$ 2.30
Diluted Weighted Average Shares Outstanding			
GAAP	307	316	315
Non-GAAP	307	316	315

Supplemental Operating Segment Results

In millions, except percentages; unaudited	Q2F21	Q3F21	Q4F21	Q1F22	Q2F22
Net Revenue					
HDD	\$ 1,909	\$ 1,962	\$ 2,501	\$ 2,561	\$ 2,213
Flash	<u>2,034</u>	<u>2,175</u>	<u>2,419</u>	<u>2,490</u>	<u>2,620</u>
Total Net Revenue	\$ 3,943	\$ 4,137	\$ 4,920	\$ 5,051	\$ 4,883
Gross Profit By Segment					
HDD	\$ 488	\$ 491	\$ 759	\$ 792	\$ 677
Flash	<u>551</u>	<u>653</u>	<u>859</u>	<u>921</u>	<u>946</u>
Total Gross Profit for Segments	\$ 1,039	\$ 1,144	\$ 1,618	\$ 1,713	\$ 1,623
Unallocated corporate items:					
Amortization of acquired intangible assets	109	39	38	39	26
Stock-based compensation expense	15	14	14	9	14
Charges related to a power outage incident and related recovery	<u>(45)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total unallocated corporate items	<u>(79)</u>	<u>(53)</u>	<u>(52)</u>	<u>(48)</u>	<u>(40)</u>
Consolidated Gross Profit	\$ 960	\$ 1,091	\$ 1,566	\$ 1,665	\$ 1,583
Gross Margin					
HDD ⁽¹⁾	25.6%	25.0%	30.3%	30.9%	30.6%
Flash ⁽²⁾	27.1%	30.0%	35.5%	37.0%	36.1%
Total gross margin for segments ⁽³⁾	26.4%	27.7%	32.9%	33.9%	33.6%
Consolidated total ⁽⁴⁾	24.3%	26.4%	31.8%	33.0%	32.8%

- HDD gross margin is calculated by dividing HDD gross profit by HDD revenue.
- Flash gross margin is calculated by dividing Flash gross profit by Flash revenue.
- Total gross margin for segments is calculated by dividing total gross profit for segments by total revenue.
- Consolidated total gross margin is calculated by dividing consolidated gross profit by total revenue.

Note: In the table above, total gross profit for segments and total gross margin for segments are non-GAAP financial measures, which are also referred to herein as Non-GAAP gross profit and Non-GAAP gross margin, respectively.

GAAP to Non-GAAP Reconciliation

FOOTNOTES

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 EBITDA; Credit Agreement Defined Adjusted EBITDA; 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 (as applicable) the amortization of acquired intangible assets, stock-based compensation expense, employee termination, asset impairment and other charges, charges related to a power outage incident and related recovery, 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. 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. In addition, the company may record credits related to gains upon sale of property due to restructuring or reversals of charges recorded in prior periods. These charges or credits are inconsistent in amount and frequency, and the company believes they are not indicative of the underlying performance of its business.

Charges related to a power outage incident and related recovery. In June 2019, an unexpected power outage incident occurred at the flash-based memory manufacturing facilities operated through the company's joint venture with Kioxia Corporation in Yokkaichi, Japan. The power outage incident resulted in costs associated with the repair of damaged tools and the write-off of damaged inventory and unabsorbed manufacturing overhead costs which are expensed as incurred. During fiscal year 2021, the company received recoveries of these losses from its insurance carriers. These charges and recoveries are inconsistent in amount and frequency, and the company believes these charges or recoveries 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 incurs 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 also include adjustments to 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 the company believes that they are not indicative of the underlying performance of its ongoing business.

Additionally, 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.

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