Fiscal Third Quarter 2021 Results

Western Digital

April 29, 2021

Forward Looking Statements

SAFE HARBOR

Western Digital.

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 third quarter ended April 2, 2021; the company's business outlook for the fiscal fourth quarter of 2021; demand trends, market conditions and the company's market position; expectations regarding the company's product momentum, portfolio synergies and market opportunities; capital expenditure expectations; the company's liquidity position; 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; 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 high 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 28, 2020, 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.

Executive Summary

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Financial Results	• Revenue of $4.1B • Non-GAAP diluted net earnings per share of $1.02* • Non-GAAP gross margin is 27.7%	• Operating cash flow of $116M • Free cash flow of ($11M) • Cash and cash equivalents of $2.7B

Corporate

- Increased operational and strategic focus enabled by new business unit structure is driving results
- Seeing the benefits of the synergistic value in delivering both flash and hard drive products

Flash

- Experienced significant growth with our second generation, NVMe enterprise SSD at a cloud titan
- WD_BLACK product line has maintained strong levels of interest as gamers have gravitated toward more customized solutions
- Expect BiCS5 bit crossover in the second half of calendar year 2021
- Announced BiCS6, our next generation flash device based on 162-layer and CUA technology

Hard Drives

- Completed qualifications for our energy-assisted drives with nearly all cloud and enterprise customers, including all the cloud titans
- Entered into longer-term agreements for our 18-terabyte drives with a number of cloud titans
- Retail HDD demand was better than expected, supported by continued work-from-home, distance learning, and at-home entertainment trends

*With our improving profitability, our tax rate in the fiscal third quarter was 8%, and directly resulted in a 17-cent benefit to our EPS.
For reconciliations of GAAP to non-GAAP financial measures, see the Appendix.

Revenue Trends

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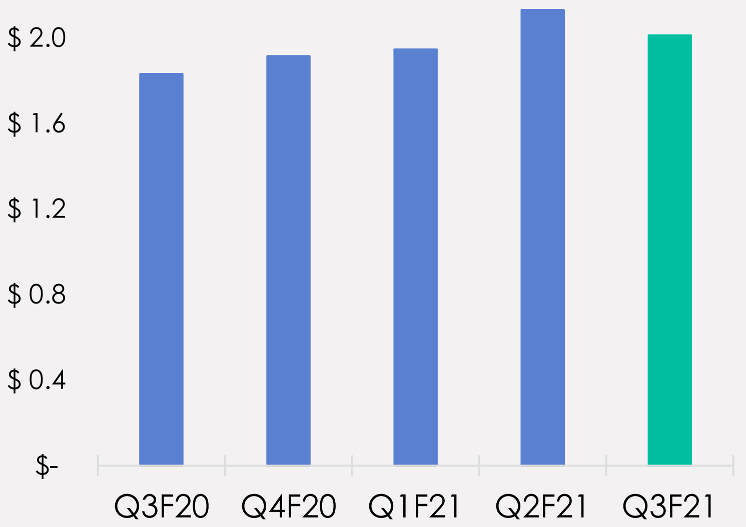
Client Devices

In billions



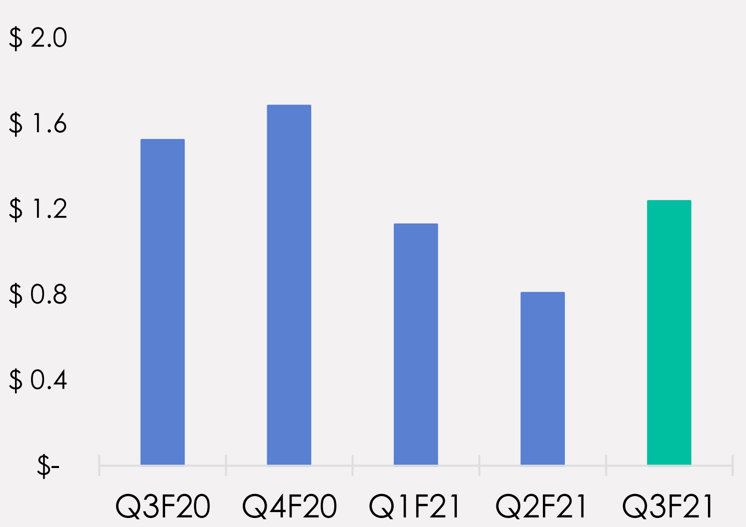
Revenue

$2.0 billion

decreased 6% QoQ
increased 10% YoY

Data Center Devices & Solutions

In billions



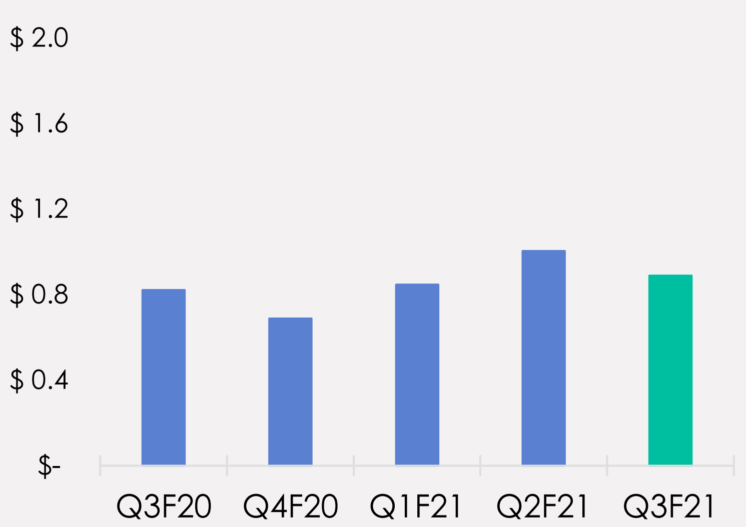
Revenue

$1.2 billion

increased 53% QoQ
decreased 19% YoY

Client Solutions

In billions



Revenue

$888 million

decreased 12% QoQ
increased 8% YoY

Flash and Hard Drive Metrics

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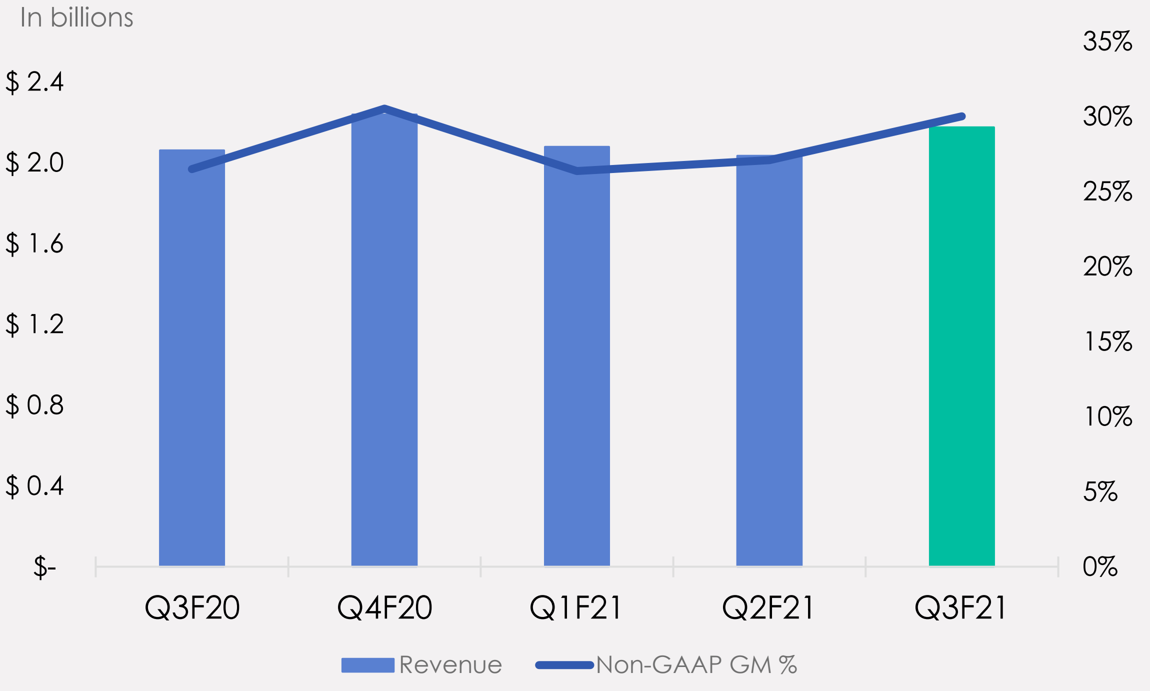
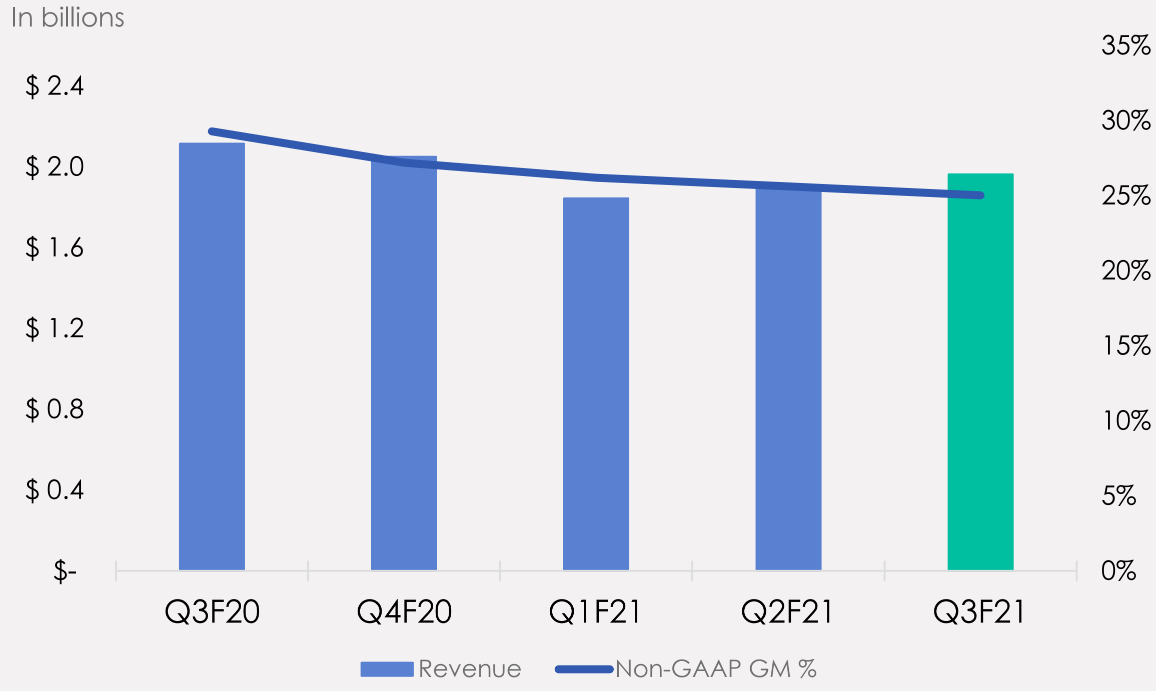
Flash Revenue and Non-GAAP Gross Margin



Hard Drive Revenue and Non-GAAP Gross Margin



Flash

Q3F21 Results

- Bit shipments: up 8% QoQ
- ASP/Gigabyte:
  - Blended: down 2% QoQ
  - Like-for-like: flat QoQ

Hard Drive

Q3F21 Results

- Total exabyte shipments: up 7% QoQ
- ASP per drive: $82

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

Non-GAAP Financial Results

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	Q3F20	Q2F21	Q3F21	QoQ	YoY
Revenue ($M)	$ 4,175	$ 3,943	$ 4,137	$ 194	($ 38)
Gross Margin %	27.9%	26.4%	27.7%	1.3 ppt	(0.2 ppt)
Operating Expenses ($M)	$ 738	$ 696	$ 732	$ 36	($ 6)
Operating Income ($M)	$ 427	$ 343	$ 412	$ 69	($ 15)
Interest and Other Expense, net ($M)	$ 91	$ 68	$ 67	($ 1)	($ 24)
EPS - Diluted	$ 0.85	$ 0.69	$ 1.02*	$ 0.33	$ 0.17
Operating Cash Flow ($M)	$ 142	$ 425	$ 116	($ 309)	($ 26)
Free Cash Flow ($M)	$ 176	$ 149	($ 11)	($ 160)	($ 187)

*With our improving profitability, our tax rate in the fiscal third quarter was 8%, and directly resulted in a 17-cent benefit to our EPS.
For reconciliations of GAAP to non-GAAP financial measures, see the Appendix.

Cash Flow Walk

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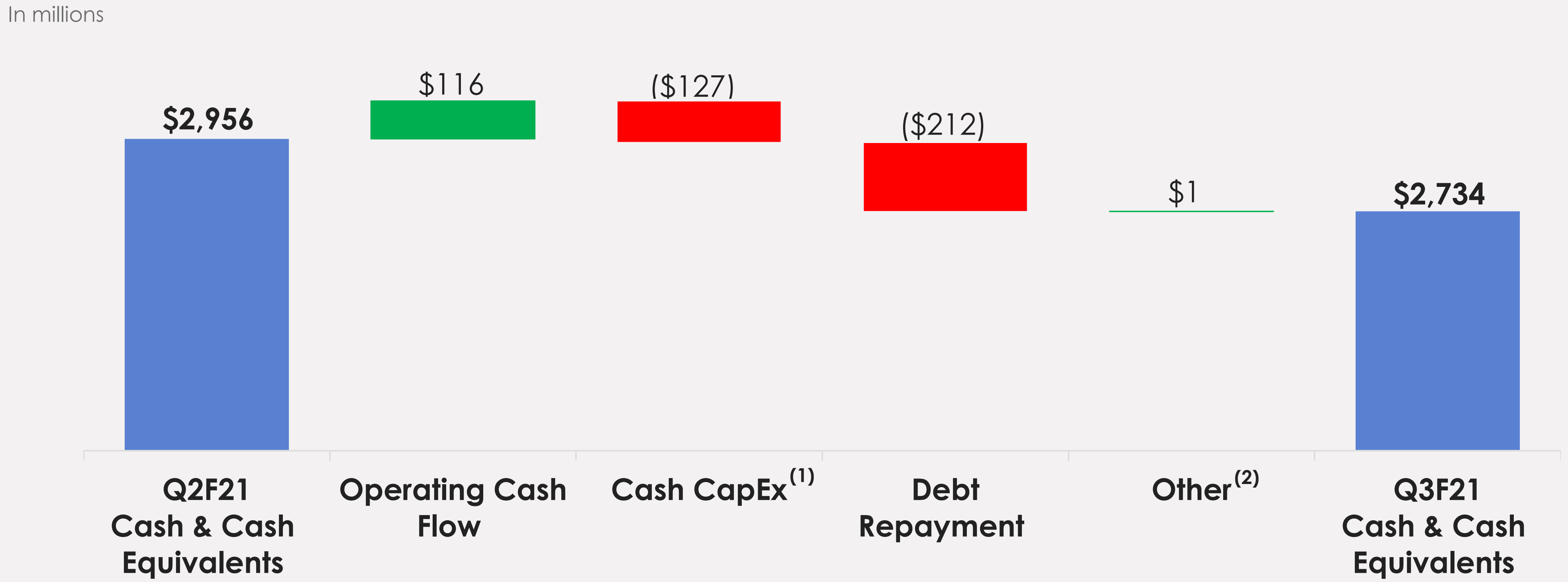


- Quarterly debt repayment of $212 million, including optional payment of $150 million
- Strong liquidity position of $5.0 billion, including $2.25 billion undrawn revolver

1. Cash CapEx includes purchases of property, plant and equipment, net, and the activity related to Flash Ventures, net.
2. Other primarily consists of strategic investments and other, net.

Fiscal Fourth Quarter Guidance[1]

	GAAP[2]	NON-GAAP[2]
Revenue ($B)	$ 4.40 - $ 4.60	$ 4.40 - $ 4.60
Gross Margin %	29.0% - 31.0%	30.0% - 32.0%
Operating Expenses ($M)	$ 860 - $ 890	$ 760 - $ 790
Interest and Other Expense, net ($M)	$ 75 - $ 80	$ 68 - $ 73
Tax Rate %	N/A	~ 17%[3]
EPS – Diluted	N/A	$ 1.30 - $ 1.60
Share Count - Diluted (in millions)	~ 317	~ 317

1. Guidance as shown is as of April 29, 2021.
2. Non-GAAP gross margin guidance excludes amortization of acquired intangible assets and stock-based compensation expense, totaling approximately $40 million to $60 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 $90 million to $110 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 $140 million to $180 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

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 **Repays loans for equipment purchases** using excess operating cash flow	**Funds Flash Ventures' equipment purchases** (via loans, equity, and lease guarantees) in excess of Flash Ventures' operating cash flow **Owns and operates** cleanrooms **Provides wafer manufacturing** services to Flash Ventures at cost

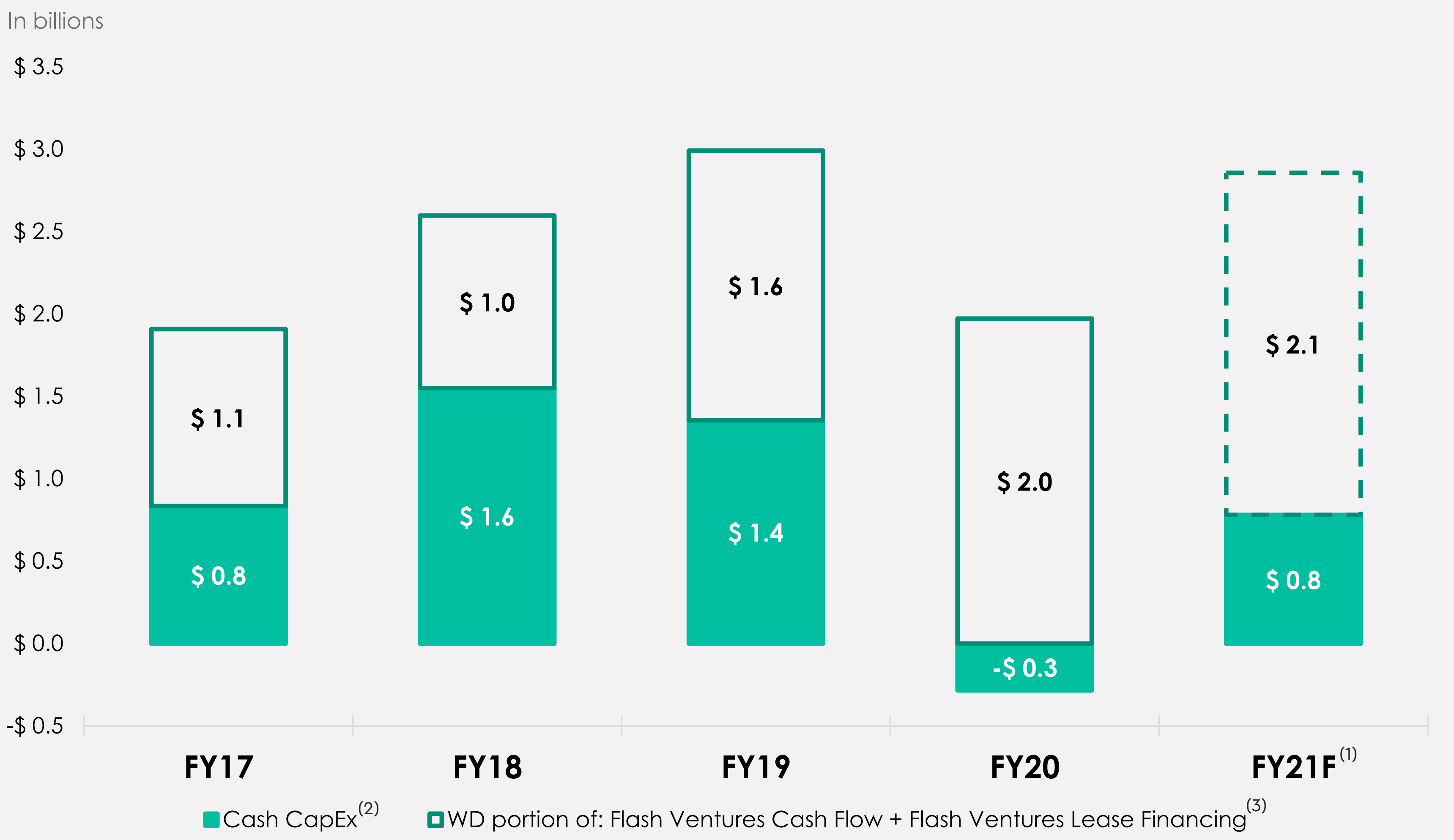
Capital Expenditure Framework

Cash Capital Expenditures[1]	1 HDD CapEx +	2 Flash Non-Fab CapEx +	3 Flash Ventures Parent Loans[2]		
Flash Ventures Capital Expenditures			3 Flash Ventures Parent Loans[2] +	4 Flash Ventures Lease Financing[2] +	5 Flash Ventures Net Operating Cash Flow[2][3]
Gross Capital Expenditures	1 HDD CapEx +	2 Flash Non-Fab CapEx +	3 Flash Ventures Parent Loans[2] +	4 Flash Ventures Lease Financing[2] +	5 Flash Ventures Net Operating Cash Flow[2][3]

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

Western Digital



1. FY21F: Gross Capital Expenditures of ~$2.9 billion, of which Cash Capital Expenditures = ~$0.8 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

Highest Priority

Priority	Description
Reinvestment in the Company	Strategically reinvest to continue driving technological innovation
Reduce Debt	Target 1.0x – 3.5x Debt-to-EBITDA
Shareholder Return: Dividend Program; Share Repurchases	Shareholder return opportunities will be reevaluated

Upcoming Events

Western Digital

MAY 26	JUNE 1	JUNE 8	JUNE 9	JUNE 10
JP Morgan Tech, Media & Telecom Conference	Cowen TMT Conference	Stifel Cross Sector Insight Conference	Evercore TMT Conference	Bank of America Global Technology Conference

Events and participation are subject to change. Please visit our website at investor.wdc.com for the latest information.

Appendix

Quarterly Fact Sheet

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In millions, except Average Selling Price (ASP), percentages, and working capital related metrics	Q3F20	Q4F20	Q1F21	Q2F21	Q3F21
Revenue					
Client Devices[1]	$ 1,831	$ 1,916	$ 1,946	$ 2,131	$ 2,012
Data Center Devices & Solutions[1]	1,523	1,684	1,129	807	1,237
Client Solutions[1]	821	687	847	1,005	888
Total Revenue	**$ 4,175**	**$ 4,287**	**$ 3,922**	**$ 3,943**	**$ 4,137**
Exabyte Metrics					
QoQ Change in HDD Exabytes Sold[2]	(6%)	(2%)	(7%)	2%	7%
QoQ Change in Flash Exabytes Sold[2]	7%	8%	1%	7%	8%
QoQ Change in Total Exabytes Sold[2]	(5%)	(1%)	(6%)	3%	7%
Technology					
HDD Revenue	$ 2,114	$ 2,049	$ 1,844	$ 1,909	$ 1,962
Flash Revenue	2,061	2,238	2,078	2,034	2,175
HDD Non-GAAP Gross Margin[3]	29.3%	27.2%	26.2%	25.6%	25.0%
Flash Non-GAAP Gross Margin[3]	26.5%	30.5%	26.4%	27.1%	30.0%
Total Non-GAAP Gross Margin[3]	27.9%	28.9%	26.3%	26.4%	27.7%
Cash and Cash Equivalents	**$ 2,943**	**$ 3,048**	**$ 2,995**	**$ 2,956**	**$ 2,734**
Cash Flows					
Cash Flows provided by Operating Activities	$ 142	$ 172	$ 363	$ 425	$ 116
Purchases of Property, Plant and Equipment, net	(127)	(215)	(330)	(207)	(162)
Activity Related to Flash Ventures, net	161	304	163	(69)	35
Free Cash Flow[4]	**$ 176**	**$ 261**	**$ 196**	**$ 149**	**($ 11)**
Working Capital Related					
Days Sales Outstanding	43	50	49	42	42
Days Inventory Outstanding	89	87	101	109	110
Days Payables Outstanding	(63)	(67)	(71)	(71)	(66)
Cash Conversion Cycle	**69**	**70**	**79**	**80**	**86**
Flash Metrics					
QoQ Change in ASP/Gigabytes[2]	5%	1%	(9%)	(9%)	(2%)
HDD Metrics					
Client Compute Units[5]	9.1	9.4	9.3	10.7	9.2
Non-Compute Units[6]	8.0	6.9	8.2	10.1	8.3
Data Center Units[7]	7.3	6.8	5.5	4.9	5.7
Total HDD Units[8]	**24.4**	**23.1**	**23.0**	**25.7**	**23.2**
HDD ASP[9]	$ 85	$ 87	$ 79	$ 73	$ 82

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. Refer to the GAAP to non-GAAP reconciliation slides within the Appendix for further details.
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 Q3F21 (in millions)	Applicable Rates[1]
Revolver drawn[2][3]	L+150	February 27, 2023	$ 0	1.615%
Term Loan A-1[4]	L+150	February 27, 2023	4,394	2.745%[4]
Term Loan B-4[4]	L+175	April 29, 2023	1,243	1.865%
Convertible Debt Due 2024[5]	1.500%	February 1, 2024	1,100	1.500%
Sr. Unsecured Notes Due 2026[6]	4.750%	February 15, 2026	2,300	4.750%
Total			**$ 9,037**	**2.983%[7]**

1. All-in applicable rates as of April 2, 2021. Applicable spread for Term Loan A-1 and Revolver over LIBOR based on credit ratings as of April 2, 2021.
2. Revolver capacity: $2.25 billion, none of which was drawn as of April 2, 2021.
3. Term Loan A-1, Term Loan B-4, and Revolver have a LIBOR floor of 0bps.
4. Reflects impact of the interest rate swaps that effectively fix LIBOR on $2 billion of floating-rate debt at 2.60% through February 2023.
5. Initial conversion price of $121.91 per share. Notes became callable on February 5, 2021.
6. Notes are callable beginning November 15, 2025.
7. Weighted average interest rate, including impact of interest rate swaps, based on principal balances outstanding as of April 2, 2021.

Credit Agreement Defined Leverage Ratio

Western Digital

In millions; unaudited; trailing 12 months	Q3F20	Q4F20	Q1F20	Q2F21	Q3F21
Net Income (Loss)	**($ 595)**	**($ 250)**	**($ 34)**	**$ 167**	**$ 347**
Income tax expense	(110)	204	222	146	169
Interest and other expense, net	398	381	346	329	290
Depreciation and amortization	1,605	1,566	1,534	1,471	1,338
EBITDA[1]	**$ 1,298**	**$ 1,901**	**$ 2,068**	**$ 2,113**	**$ 2,144**
Stock-based compensation expense	$ 296	$ 308	$ 307	$ 310	$ 315
Employee termination, asset impairment and other charges	49	32	47	40	(36)
Charges related to acquisitions and dispositions	9	9	4	2	0
Charges related to cost saving initiatives	16	9	8	1	1
Manufacturing underutilization charges	67	0	0	0	0
Charges related to a power outage incident and related recovery	213	68	(30)	(75)	(75)
Other	17	(8)	(8)	0	1
Adjusted EBITDA[2][3]	**$ 1,965**	**$ 2,319**	**$ 2,396**	**$ 2,391**	**$ 2,350**
Total Debt[4]	**$ 9,774**	**$ 9,711**	**$ 9,498**	**$ 9,250**	**$ 9,037**
Debt to Adjusted EBITDA	**5.0X**	**4.2X**	**4.0X**	**3.9X**	**3.8X**
Flash Ventures equipment depreciation expenses[5]	$ 997	$ 977	$ 980	$ 1,006	$ 1,039
Other Credit Agreement Adjustments[6]	265	125	70	64	62
Credit Agreement Defined Adjusted EBITDA[7]	**$ 3,227**	**$ 3,421**	**$ 3,446**	**$ 3,461**	**$ 3,451**
Total Debt[4]	**$ 9,774**	**$ 9,711**	**$ 9,498**	**$ 9,250**	**$ 9,037**
Credit Agreement Defined Leverage Ratio[8]	**3.0X**	**2.8X**	**2.8X**	**2.7X**	**2.6X**

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. 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.
4. Total Debt is the total principal balance of debt outstanding as of the end of the applicable trailing 12-month period.
5. The company's share of Flash Ventures' equipment depreciation expense was approximately 95% of Credit Agreement Adjustments for the trailing 12 months Q3F21.
6. 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.
7. 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.
8. 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	Q3F20	Q4F20	Q1F21	Q2F21	Q3F21
Net Income (Loss)	**$ 17**	**$ 148**	**($ 60)**	**$ 62**	**$ 197**
Income Tax Expense	29	37	57	23	52
Interest And Other Expense, Net	107	76	73	73	68
Depreciation And Amortization	384	377	374	336	251
EBITDA[1]	**$ 537**	**$ 638**	**$ 444**	**$ 494**	**$ 568**
Stock-based Compensation Expense	$ 78	$ 76	$ 76	$ 80	$ 83
Employee Termination, Asset Impairment And Other Charges	8	7	23	2	(68)
Charges Related To Acquisitions And Dispositions	2	0	0	0	0
Charges Related To Cost Saving Initiatives	1	0	0	0	1
Charges related to a power outage incident and related recovery	0	0	(30)	(45)	0
Other	0	0	0	0	1
Adjusted EBITDA [2][3]	**$ 626**	**$ 721**	**$ 513**	**$ 531**	**$ 585**
Flash Ventures Equipment Depreciation Expenses	$ 238	$ 239	$ 262	$ 267	$ 271

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. 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

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In millions; unaudited	Q3F20	Q2F21	Q3F21
GAAP Gross Profit	**$ 1,005**	**$ 960**	**$ 1,091**
Amortization of acquired intangible assets	145	109	39
Stock-based compensation expense	13	15	14
Charges related to cost savings initiatives	2	-	-
Charges related to a power outage incident and related recovery	-	(45)	-
Non-GAAP Gross Profit	**$ 1,165**	**$ 1,039**	**$ 1,144**
GAAP Operating Expenses	**$ 852**	**$ 802**	**$ 774**
Amortization of acquired intangible assets	(40)	(39)	(39)
Stock-based compensation expense	(65)	(65)	(69)
Employee termination, asset impairment and other charges	(8)	(2)	68
Charges related to acquisitions and dispositions	(2)	-	-
Charges related to cost saving initiatives	1	-	(1)
Other	-	-	(1)
Non-GAAP Operating Expenses	**$ 738**	**$ 696**	**$ 732**
GAAP Operating Income	**$ 153**	**$ 158**	**$ 317**
Gross profit adjustments	160	79	53
Operating expense adjustments	114	106	42
Non-GAAP Operating Income	**$ 427**	**$ 343**	**$ 412**
GAAP Interest and Other Expense, Net	**($ 107)**	**($ 73)**	**($ 68)**
Convertible debt activity	7	7	7
Other	9	(2)	(6)
Non-GAAP Interest and Other Expense, Net	**($ 91)**	**($ 68)**	**($ 67)**

GAAP to Non-GAAP Reconciliation

Western Digital.

In millions, except per share amounts; unaudited	Q3F20	Q2F21	Q3F21
GAAP Net Income	**$ 17**	**$ 62**	**$ 197**
Amortization of acquired intangible assets	185	148	78
Stock-based compensation expense	78	80	83
Employee termination, asset impairment and other charges	8	2	(68)
Charges related to acquisitions and dispositions	2	-	-
Charges related to cost saving initiatives	1	-	1
Charges related to a power outage incident and related recovery	-	(45)	-
Convertible debt activity	7	7	7
Other	9	(2)	(5)
Income tax adjustments	(50)	(40)	25
Non-GAAP Net Income	**$ 257**	**$ 212**	**$ 318**
Diluted Income Per Common Share			
GAAP	$ 0.06	$ 0.20	$ 0.63
Non-GAAP	$ 0.85	$ 0.69	$ 1.02
Diluted Weighted Average Shares Outstanding			
GAAP	299	307	313
Non-GAAP	303	307	313

GAAP to Non-GAAP Reconciliation

Western Digital

In millions, except percentages; unaudited	Q3F20	Q4F20	Q1F21	Q2F21	Q3F21
Gross Profit	**$ 1,005**	**$ 1,083**	**$ 904**	**$ 960**	**$ 1,091**
Amortization of acquired intangible assets	145	144	145	109	39
Stock-based compensation expense	13	13	12	15	14
Charges related to cost saving initiatives	2	-	-	-	-
Charges related to a power outage incident and related recovery	-	-	(30)	(45)	-
Non-GAAP Gross Profit	**$ 1,165**	**$ 1,240**	**$ 1,031**	**$ 1,039**	**$ 1,144**
Non-GAAP Gross Profit By Product					
HDD	$ 619	$ 557	$ 483	$ 488	$ 491
Flash	546	683	548	551	653
Total Non-GAAP Gross Profit	**$ 1,165**	**$ 1,240**	**$ 1,031**	**$ 1,039**	**$ 1,144**
Revenue By Product					
HDD	$ 2,114	$ 2,049	$ 1,844	$ 1,909	$ 1,962
Flash	2,061	2,238	2,078	2,034	2,175
Total Revenue	**$ 4,175**	**$ 4,287**	**$ 3,922**	**$ 3,943**	**$ 4,137**
Consolidated GAAP gross margin[1]	24.1%	25.3%	23.0%	24.3%	26.4%
Consolidated Non-GAAP gross margin[2]	27.9%	28.9%	26.3%	26.4%	27.7%
Non-GAAP HDD gross margin[3]	29.3%	27.2%	26.2%	25.6%	25.0%
Non-GAAP Flash gross margin[4]	26.5%	30.5%	26.4%	27.1%	30.0%

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.

GAAP to Non-GAAP Reconciliation

Western Digital.

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 acquisitions and dispositions, charges related to cost saving initiatives, manufacturing underutilization charges, charges related to a power outage incident and related recovery, convertible debt activity, 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 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 they 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 joint venture 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.

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. In the fiscal first and second quarters of 2021, the company received recoveries of these losses from 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.