# Fiscal First Quarter 2023 Financial Results

# 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 and financial performance for the fiscal second quarter of 2023; product ramps and qualifications; product momentum; and capital expenditure and 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.

Key risks and uncertainties include volatility in global economic conditions; future responses to and effects of the COVID-19 pandemic or other similar global health crises; impact of business and market conditions; the outcome and impact of our ongoing strategic review, including with respect to customer and supplier relationships, regulatory and contractual restrictions, stock price volatility and the diversion of management's attention from ongoing business operations and opportunities; 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 level of debt and other financial obligations; changes to our relationships with key customers; disruptions in operations from cybersecurity incidents 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 25, 2022, 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 fiscal first quarter ended September 30, 2022. 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 period ended September 30, 2022 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.

# Fiscal First Quarter Executive Summary

**Financial Results**

- Revenue of $ 3.7B
- Non-GAAP EPS of $ 0.20
- Non-GAAP gross margin of 26.7%
- Operating cash flow of $ 6M
- Free cash flow of $ (215)M
- Cash and cash equivalents of $ 2.0B

**Corporate**

- The breadth of markets we address offer us unique visibility into end market demand signals, which allowed us to recognize challenges as they unfolded, and with a strong product leadership and unmatched innovation engine, we believe Western Digital will thrive as demand improves and new products continue to ramp.

**Flash**

- Bit shipment exceeded our forecast, driven by our broad portfolio, diverse routes to market and leading brands, including WD BLACK, SanDisk and SanDisk Professional, that are recognized globally for their cutting-edge innovation, performance, and quality.
- BiCS5 accelerated to over two-thirds of our flash revenue, up from about half in the previous quarter.
- BiCS6 yield and development of subsequent 3D-NAND flash are both progressing well.

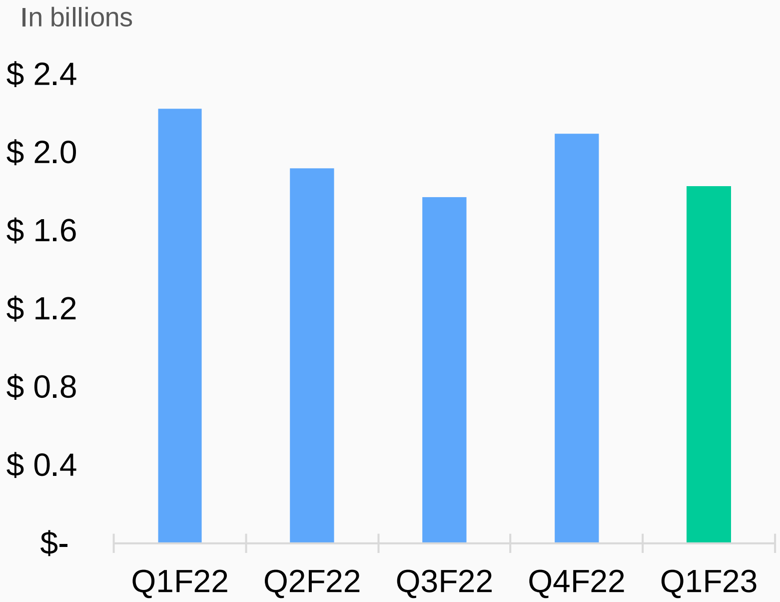
**Hard Drive**

- Continued momentum with U.S. cloud customers and accelerated adoption of SMR hard drives were offset by softness in other capacity enterprise product channels and consumer HDD demand.
- SMR exceeded 25% of total capacity enterprise exabyte shipment, one quarter ahead of our expectations.
- We are deep into the process of qualifying our latest generation hard drives, including our 26-terabyte UltraSMR hard drives, at multiple U.S. cloud and OEM customers.

See Appendix for GAAP to non-GAAP Reconciliations.

# Revenue Trends by End Market

## Cloud

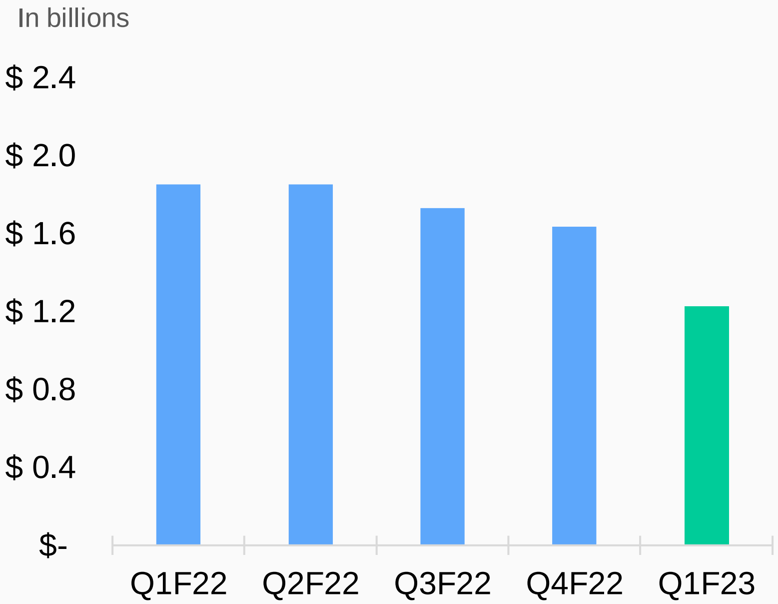



**Revenue**

**$ 1.8 billion**

Decreased 13% QoQ
Decreased 18% YoY

## Client

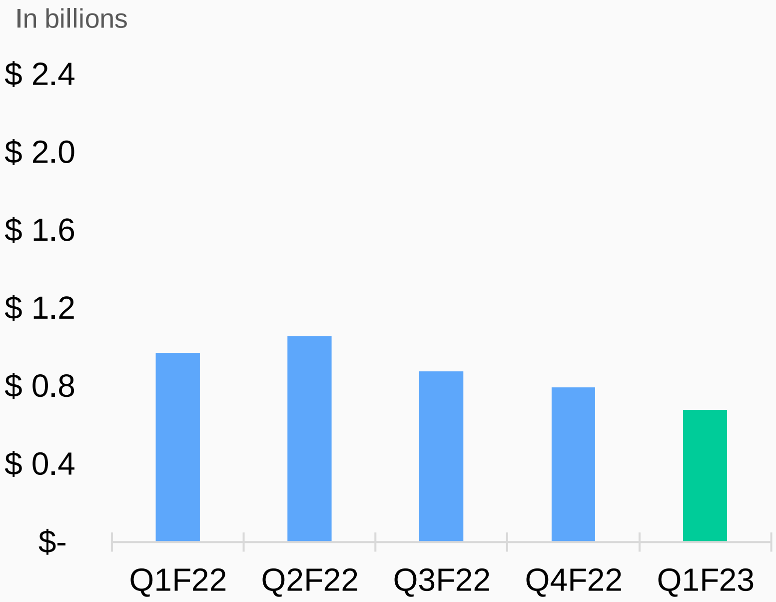



**Revenue**

**$ 1.2 billion**

Decreased 25% QoQ
Decreased 34% YoY

## Consumer



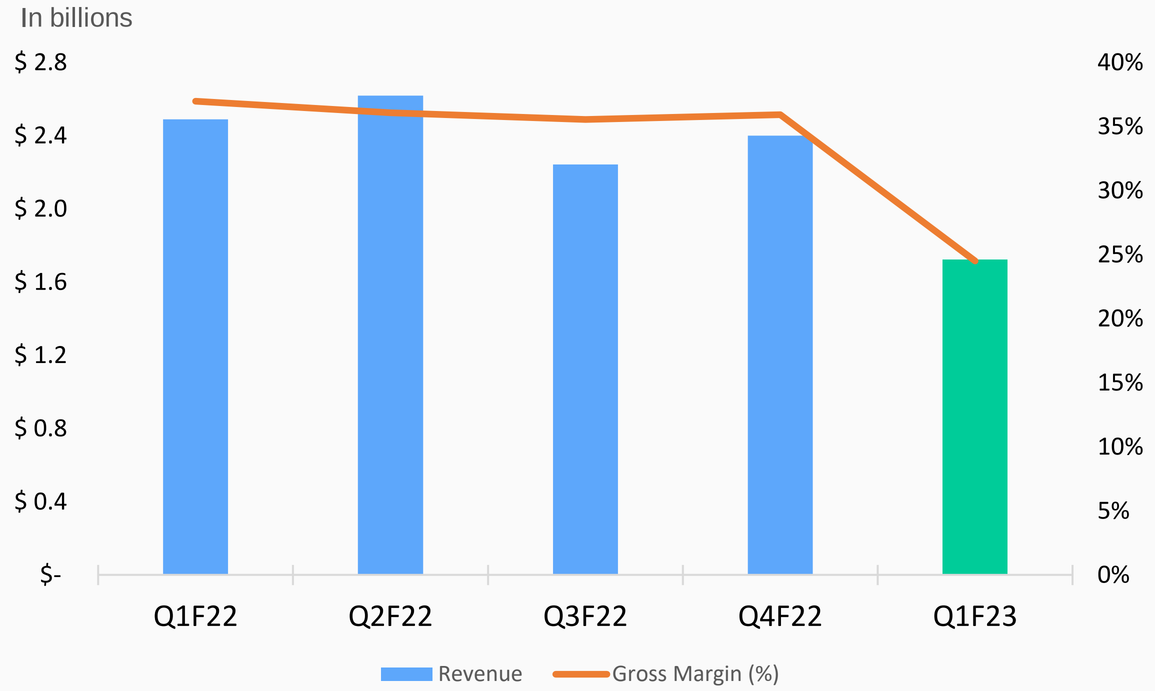

**Revenue**

**$ 0.7 billion**

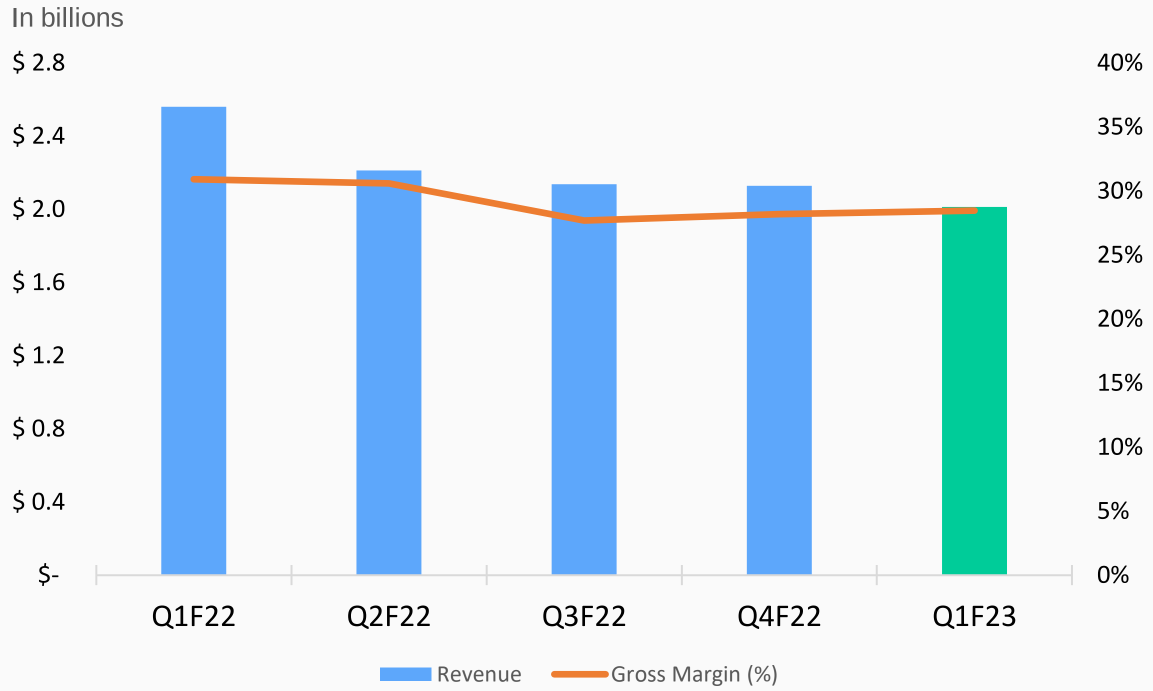
Decreased 15% QoQ
Decreased 30% YoY

# Flash and Hard Drive Metrics

## Flash Revenue and Gross Margin




## Hard Drive Revenue and Gross Margin




## Flash

**Q1F23 Results**

- Bit shipments: decreased 10% QoQ
- ASP/Gigabyte:
  - Blended: decreased 22% QoQ
  - Like-for-like: decreased 17% QoQ

## Hard Drive

**Q1F23 Results**

- Exabyte shipments: increased 1% QoQ
- ASP per drive: $ 125

See Appendix for Supplemental Operating Segment Results.

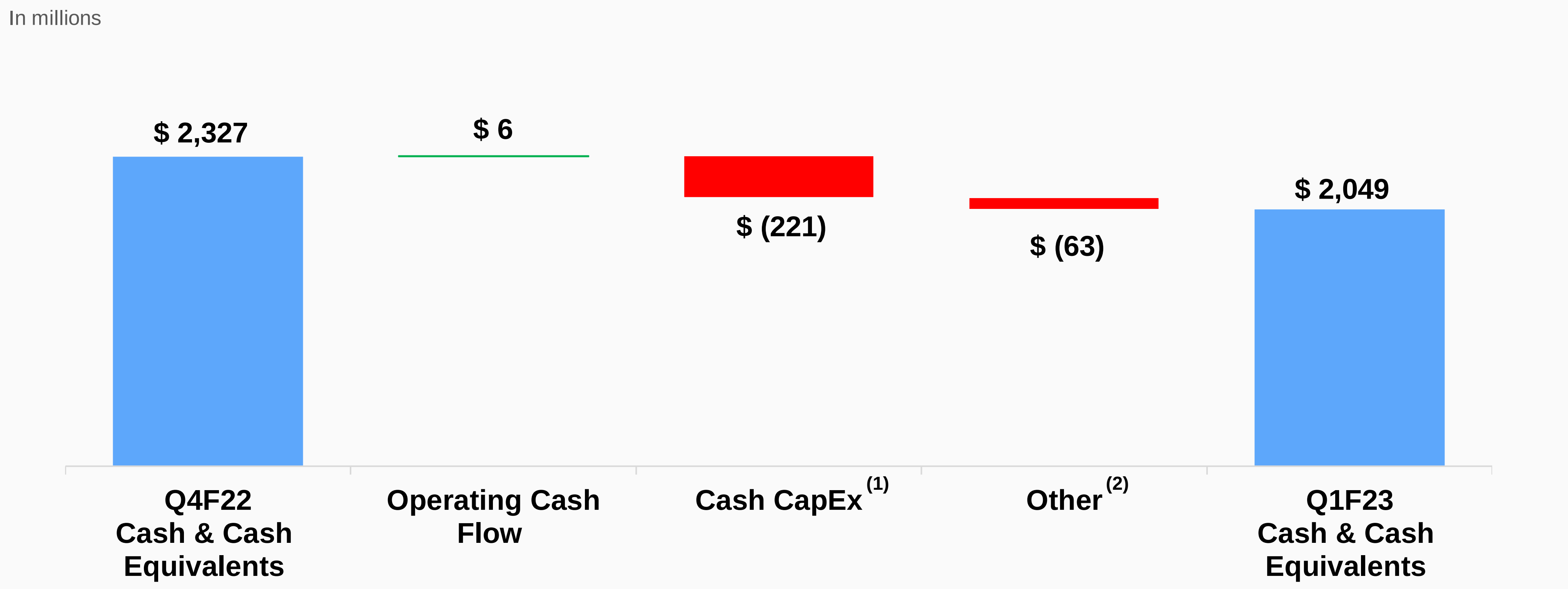
# Non-GAAP Financial Results

($ in millions, except for EPS)

| | Q1 2022 | Q4 2022 | Q1 2023 | QoQ | YoY |
|---|---|---|---|---|---|
| **Revenue** | $ 5,051 | $ 4,528 | $ 3,736 | down 17% | down 26% |
| **Gross Margin %** | 33.9% | 32.3% | 26.7% | down 5.6 ppt | down 7.2 ppt |
| **Operating Expenses** | $ 761 | $ 760 | $ 689 | down 9% | down 9% |
| **Operating Income** | $ 952 | $ 702 | $ 307 | down 56% | down 68% |
| **Interest and Other Expense, net** | $ 68 | $ 65 | $ 75 | up 15% | up 10% |
| **EPS – Diluted** | $ 2.49 | $ 1.78 | $ 0.20 | down 89% | down 92% |
| **Operating Cash Flow** | $ 521 | $ 295 | $ 6 | down 98% | down 99% |
| **Free Cash Flow** | $ 224 | $ (97) | $ (215) | * | * |

See Appendix for GAAP to Non-GAAP Reconciliations.
* Not a meaningful figure

# Cash Flow Walk




- Strong liquidity position. Ended the fiscal first quarter at $ 4.30 billion, including $ 2.25 billion undrawn revolver.

1. Cash Capital Expenditures includes purchases of property, plant and equipment, net, and notes receivable issuances to Flash Ventures, net.
2. Other primarily consists of employee stock plans, net and strategic investments and other, net.

# Fiscal Second Quarter Guidance[1]

| | GAAP | Non-GAAP[2] |
|---|---|---|
| **Revenue ($ B)** | $ 2.90 - $ 3.10 | $ 2.90 - $ 3.10 |
| **Gross Margin %** | 19.5% - 21.5% | 20.0% - 22.0% |
| **Operating Expenses ($ M)** | $ 760 - $ 780 | $ 650 - $ 670 |
| **Interest and Other Expense, net ($ M)** | ~$ 80 | ~$ 80 |
| **Tax benefit ($ M)[3]** | N/A | $ 70 - $ 90 |
| **EPS - Diluted** | N/A | $ (0.25) - $ 0.05 |
| **Share Count - Diluted (in millions)** | ~319 | ~319 |

1. Guidance as shown is as of October 27, 2022.
2. Non-GAAP gross margin guidance excludes stock-based compensation expense of approximately $ 10 million to $ 15 million. The company's Non-GAAP operating expenses guidance excludes amortization of acquired intangible assets and stock-based compensation expense, totaling approximately $ 100 million to $ 120 million. In the aggregate, Non-GAAP diluted earnings per share guidance excludes these items totaling $ 110 million to $ 135 million. The timing and amount of these charges excluded from Non-GAAP gross margin, Non-GAAP operating expenses, 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 benefit 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 tax benefit and Non-GAAP diluted earnings per share to the most directly comparable GAAP financial measures (income tax benefit and diluted earnings per share, respectively) are not available without unreasonable effort.
3. The Non-GAAP tax benefit in dollars is determined based on a percentage of Non-GAAP pre-tax income or loss. Due to differences in the tax treatment of items excluded from our Non-GAAP net income; the fact that our GAAP tax expense or benefit in dollars recorded in any interim period is based on an estimated forecasted GAAP tax rate for the full year, excluding loss jurisdictions; and because our GAAP taxes recorded in any interim period are dependent on the timing and determination of certain GAAP operating expenses, our estimated Non-GAAP tax dollars may differ from our GAAP tax dollars.

# Joint Venture Operational Framework

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

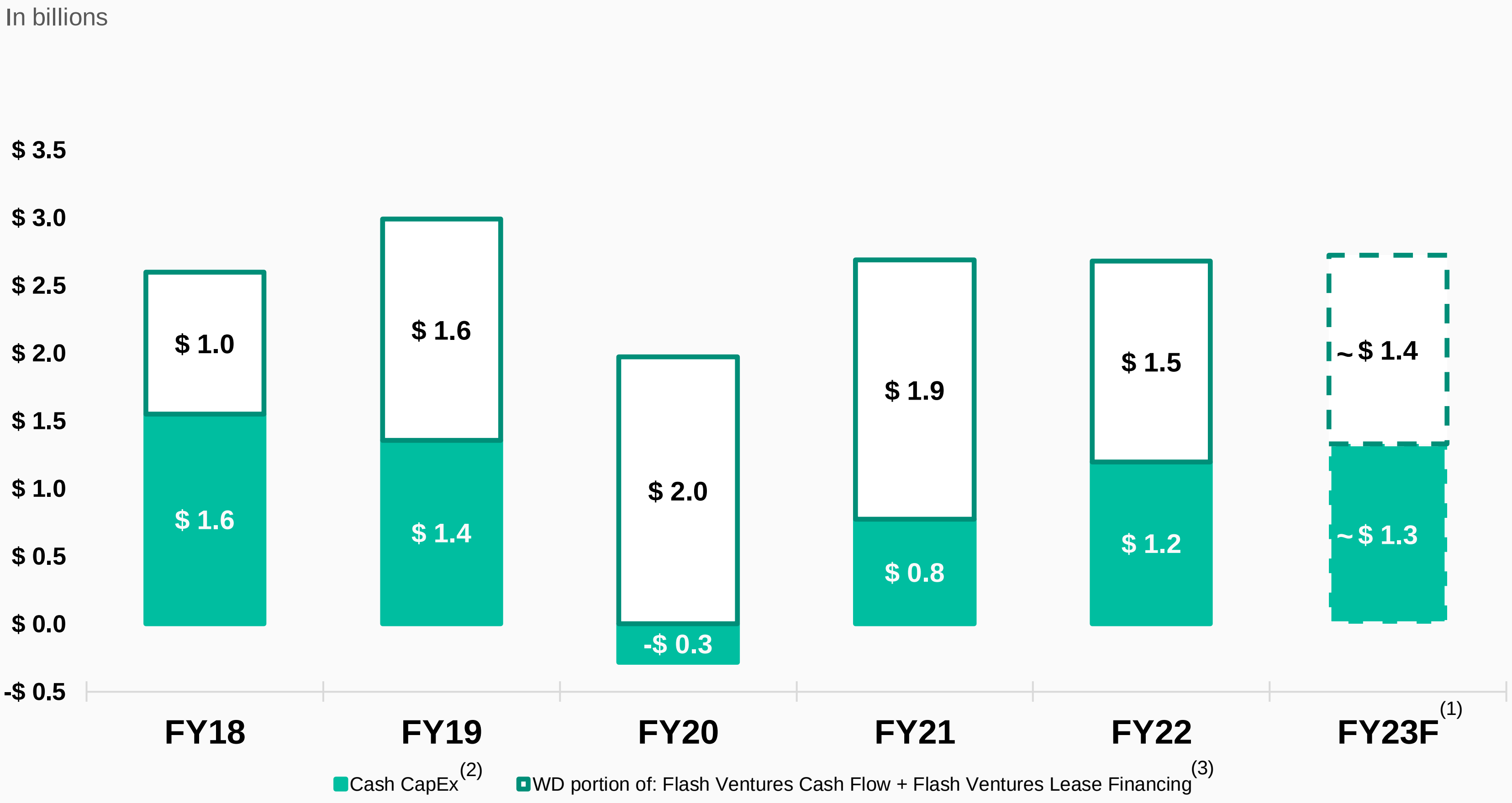
| Western Digital | Flash Ventures<br>49.9% Owned by Western Digital<br>50.1% Owned by Kioxia | KIOXIA |
|---|---|---|
| **Co-develops flash** (including process technology and memory design) with Kioxia and contributes IP for Flash Ventures' use | **Owns and leases equipment** for flash wafer production 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

| | | | | | |
|---|---|---|---|---|---|
| **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




1. FY23F: Gross Capital Expenditures of ~$2.7 billion, of which Cash Capital Expenditures = ~$1.3 billion.
2. Cash Capital Expenditures includes purchases of property, plant and equipment, net, and notes receivable issuances 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 Framework

Highest Priority

| Priority | Description |
|---|---|
| Reinvestment in the Company | Strategically reinvest to drive innovation |
| Reduce Leverage | Target 1.0x – 3.25x Debt-to-EBITDA |
| Shareholder Return: Dividend Program; Share Repurchases | Committed to returning excess cash to shareholders |

# Appendix

# Quarterly Fact Sheet

| In millions, except Average Selling Price (ASP), percentages, and working capital related metrics | Q1F22 | Q2F22 | Q3F22 | Q4F22 | Q1F23 |
|---|---|---|---|---|---|
| **Revenue by End Market[1]** | | | | | |
| Cloud | $ 2,225 | $ 1,920 | $ 1,774 | $ 2,098 | $ 1,829 |
| Client | 1,853 | 1,854 | 1,732 | 1,637 | 1,229 |
| Consumer | 973 | 1,059 | 875 | 793 | 678 |
| **Total Revenue** | **$ 5,051** | **$ 4,833** | **$ 4,381** | **$ 4,528** | **$ 3,736** |
| **Segment Results** | | | | | |
| Flash Revenue | $ 2,490 | $ 2,620 | $ 2,243 | $ 2,400 | $ 1,722 |
| HDD Revenue | 2,561 | 2,213 | 2,138 | 2,128 | 2,014 |
| **Total Revenue** | **$ 5,051** | **$ 4,833** | **$ 4,381** | **$ 4,528** | **$ 3,736** |
| Flash Gross Margin | 37% | 36% | 36% | 36% | 25% |
| HDD Gross Margin | 31% | 31% | 28% | 28% | 29% |
| Total Gross Margin for Segments[2] | 34% | 34% | 32% | 32% | 27% |
| **Exabyte Metrics** | | | | | |
| QoQ Change in Flash Exabytes Sold[3] | 8% | 13% | (14%) | 6% | (10%) |
| QoQ Change in HDD Exabytes Sold[3] | 4% | (14%) | 1% | 1% | 1% |
| QoQ Change in Total Exabytes Sold[3] | 4% | (11%) | (2%) | 2% | —% |
| **Flash Metrics** | | | | | |
| QoQ Change in ASP/Gigabytes[3] | (3%) | (6%) | (1%) | 2% | (22%) |
| **HDD Metrics** | | | | | |
| Cloud Units | 11.4 | 9.8 | 9.7 | 9.3 | 8.6 |
| Client Units | 7.8 | 6.7 | 5.7 | 3.9 | 3.4 |
| Consumer Units | 4.9 | 5.1 | 4.4 | 3.3 | 2.7 |
| **Total HDD Units[4]** | **24.1** | **21.6** | **19.8** | **16.5** | **14.7** |
| HDD ASP[5] | $ 102 | $ 97 | $ 101 | $ 120 | $ 125 |
| **Cash and Cash Equivalents** | **$ 3,290** | **$ 2,531** | **$ 2,505** | **$ 2,327** | **$ 2,049** |
| **Cash Flows** | | | | | |
| Cash Flows provided by Operating Activities | $ 521 | $ 666 | $ 398 | $ 295 | $ 6 |
| Purchases of Property, Plant and Equipment, net | (245) | (294) | (290) | (278) | (320) |
| Activity Related to Flash Ventures, net | (52) | 35 | 40 | (114) | 99 |
| **Free Cash Flow[6]** | **$ 224** | **$ 407** | **$ 148** | **$ (97)** | **$ (215)** |
| **Working Capital Related** | | | | | |
| Days Sales Outstanding | 44 | 52 | 49 | 56 | 59 |
| Days Inventory Outstanding | 95 | 102 | 104 | 107 | 128 |
| Days Payables Outstanding | (61) | (68) | (63) | (66) | (65) |
| **Cash Conversion Cycle** | **78** | **86** | **90** | **97** | **122** |

# Quarterly Fact Sheet (continued)

## 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

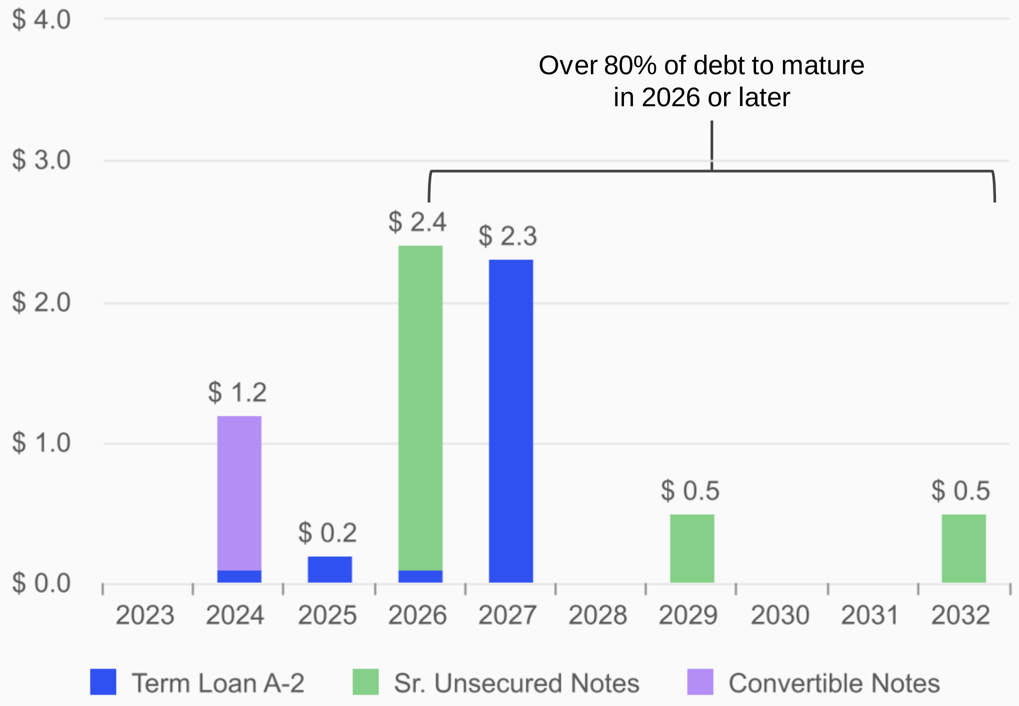
1. Cloud is primarily comprised of products sold for public or private cloud environments and enterprise customers. Client is primarily comprised of products sold directly to OEMs or via distribution. Consumer is primarily comprised of retail and other end-user products.
2. Total gross margin for segments is a Non-GAAP financial measure, which is also referred to herein as Non-GAAP gross margin. See Appendix for GAAP to Non-GAAP Reconciliations and Supplemental Operating Segment Results for further details.
3. Excludes licensing, royalties, and non-memory products.
4. HDD Unit volume excludes data storage systems and components.
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, 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

## Current Cap Table

| | Rate[1] | All-in Rate[2] | Maturity | As of September 30, 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[5,6] | S+1.375% | 4.51% | 1/7/2027 | — |
| Term Loan A-2[6] | S+1.375% | 4.11%[7] | 1/7/2027 | 2,700 |
| Sr. Unsecured Notes Due 2029[8] | 2.85% | 2.85% | 2/1/2029 | 500 |
| Sr. Unsecured Notes Due 2032[9] | 3.10% | 3.10% | 2/1/3032 | 500 |
| **Total Debt** | | **3.75%[10]** | | **$ 7,100** |

## Debt Maturity Profile (in billions)




1. S = Adjusted Term SOFR
2. All-in applicable rates as of September 30, 2022. Applicable spread for Term Loan A-2 and Revolver over SOFR plus 0.10% based on credit ratings as of September 30, 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 September 30, 2022
6. Term Loan A-2 and Revolver have a SOFR floor of 0 bps
7. Reflects impact of the interest rate swaps that effectively fix SOFR on $ 2 billion of floating-rate debt at 2.50% through February 2023
8. Notes are callable beginning December 1, 2028
9. Notes are callable beginning November 1, 2031
10. Weighted average interest rate, including impact of interest rate swaps, based on principal balances outstanding as of September 30, 2022

# Credit Agreement Defined Leverage Ratio

| In millions; unaudited; trailing 12 months | Q1F22 | Q2F22 | Q3F22 | Q4F22 | Q1F23 |
|---|---|---|---|---|---|
| **Net Income** | **$ 1,491** | **$ 1,993** | **$ 1,821** | **$ 1,500** | **$ 917** |
| Income tax expense | 143 | 202 | 387 | 623 | 586 |
| Interest and other expense, net | 294 | 302 | 296 | 268 | 268 |
| Depreciation and amortization | 1,088 | 994 | 959 | 929 | 895 |
| **EBITDA[1]** | **$ 3,016** | **$ 3,491** | **$ 3,463** | **$ 3,320** | **$ 2,666** |
| | | | | | |
| Stock-based compensation expense | $ 318 | $ 325 | $ 328 | $ 326 | $ 336 |
| Contamination related charges | — | — | 203 | 207 | 207 |
| Employee termination, asset impairment and other charges | (52) | (52) | 20 | 43 | 49 |
| Recoveries from a power outage incident | (45) | — | (7) | (7) | (7) |
| Other | 6 | 8 | 7 | 5 | 3 |
| **Adjusted EBITDA[2][3]** | **$ 3,243** | **$ 3,772** | **$ 4,014** | **$ 3,894** | **$ 3,254** |
| **Total Debt[4]** | **$ 8,612** | **$ 7,400** | **$ 7,250** | **$ 7,100** | **$ 7,100** |
| **Debt to Adjusted EBITDA** | **2.7X** | **2.0X** | **1.8X** | **1.8X** | **2.2X** |
| | | | | | |
| Flash Ventures equipment depreciation expenses | $ 1,017 | $ 1,004 | $ 990 | $ 929 | $ 858 |
| Other Credit Agreement Adjustments[5] | (58) | 9 | 2 | 11 | 2 |
| **Credit Agreement Defined Adjusted EBITDA[6]** | **$ 4,202** | **$ 4,785** | **$ 5,006** | **$ 4,834** | **$ 4,114** |
| **Total Debt[4]** | **$ 8,612** | **$ 7,400** | **$ 7,250** | **$ 7,100** | **$ 7,100** |
| **Credit Agreement Defined Leverage Ratio[7]** | **2.0X** | **1.5X** | **1.4X** | **1.5X** | **1.7X** |

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.
4. Total Debt is the total principal balance of debt outstanding as of the end of the applicable trailing 12-month period.
5. 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-2 and Revolver.
6. Credit Agreement Defined Adjusted EBITDA is used to measure financial covenant compliance under the company's credit agreement applicable to Term Loan A-2 and Revolver.
7. 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 purpose of the financial covenant applicable to Term Loan A-2 and Revolver.

# GAAP to Non-GAAP Reconciliations

| In millions; unaudited | Q1F22 | Q4F22 | Q1F23 |
|---|---|---|---|
| **GAAP Gross Profit** | **$ 1,665** | **$ 1,445** | **$ 981** |
| Stock-based compensation expense | 9 | 12 | 14 |
| Amortization of acquired intangible assets | 39 | 1 | 1 |
| Contamination related charges | — | 4 | — |
| **Non-GAAP Gross Profit** | **$ 1,713** | **$ 1,462** | **$ 996** |
| | | | |
| **GAAP Operating Expenses** | **$ 887** | **$ 883** | **$ 823** |
| Stock-based compensation expense | (67) | (65) | (72) |
| Amortization of acquired intangible assets | (39) | (39) | (38) |
| Employee termination, asset impairment and other charges | (18) | (19) | (24) |
| Other | (2) | — | — |
| **Non-GAAP Operating Expenses** | **$ 761** | **$ 760** | **$ 689** |
| | | | |
| **GAAP Operating Income** | **$ 778** | **$ 562** | **$ 158** |
| Cost of revenue adjustments | 48 | 17 | 15 |
| Operating expense adjustments | 126 | 123 | 134 |
| **Non-GAAP Operating Income** | **$ 952** | **$ 702** | **$ 307** |
| | | | |
| **GAAP Interest and Other Expense, Net** | **$ (74)** | **$ (51)** | **$ (74)** |
| Non-cash economic interest and Other | 6 | (14) | (1) |
| **Non-GAAP Interest and Other Expense, Net** | **$ (68)** | **$ (65)** | **$ (75)** |

# GAAP to Non-GAAP Reconciliations (cont'd)

| In millions, except per share amounts; unaudited | Q1F22 | Q4F22 | Q1F23 |
|---|---|---|---|
| **GAAP Net Income** | **$ 610** | **$ 301** | **$ 27** |
| Stock-based compensation expense | 76 | 77 | 86 |
| Amortization of acquired intangible assets | 78 | 40 | 39 |
| Contamination related charges | — | 4 | — |
| Employee termination, asset impairment and other charges | 18 | 19 | 24 |
| Non-cash economic interest and Other | 8 | (14) | (1) |
| Income tax adjustments | (3) | 140 | (111) |
| **Non-GAAP Net Income** | **$ 787** | **$ 567** | **$ 64** |
| | | | |
| **Diluted Income Per Common Share** | | | |
| GAAP | $ 1.93 | $ 0.95 | $ 0.08 |
| Non-GAAP | $ 2.49 | $ 1.78 | $ 0.20 |
| | | | |
| **Diluted Weighted Average Shares Outstanding** | | | |
| GAAP | 316 | 318 | 319 |
| Non-GAAP | 316 | 318 | 319 |

# Supplemental Operating Segment Results

| In millions, except percentages; unaudited | Q1F22 | Q2F22 | Q3F22 | Q4F22 | Q1F23 |
|---|---|---|---|---|---|
| **Net Revenue** | | | | | |
| Flash | $ 2,490 | $ 2,620 | $ 2,243 | $ 2,400 | $ 1,722 |
| HDD | 2,561 | 2,213 | 2,138 | 2,128 | 2,014 |
| **Total Net Revenue** | **$ 5,051** | **$ 4,833** | **$ 4,381** | **$ 4,528** | **$ 3,736** |
| | | | | | |
| **Gross Profit By Segment** | | | | | |
| Flash | $ 921 | $ 946 | $ 798 | $ 862 | $ 422 |
| HDD | 792 | 677 | 592 | 600 | 574 |
| **Total Gross Profit for Segments** | **$ 1,713** | **$ 1,623** | **$ 1,390** | **$ 1,462** | **$ 996** |
| Unallocated corporate items: | | | | | |
| Stock-based compensation expense | (9) | (14) | (13) | (12) | (14) |
| Amortization of acquired intangible assets | (39) | (26) | — | (1) | (1) |
| Contamination related charges | — | — | (203) | (4) | — |
| Recoveries from a power outage incident | — | — | 7 | — | — |
| Total unallocated corporate items | (48) | (40) | (209) | (17) | (15) |
| **Consolidated Gross Profit** | **$ 1,665** | **$ 1,583** | **$ 1,181** | **$ 1,445** | **$ 981** |
| | | | | | |
| **Gross Margin** | | | | | |
| Flash[1] | 37.0% | 36.1% | 35.6% | 35.9% | 24.5% |
| HDD[2] | 30.9% | 30.6% | 27.7% | 28.2% | 28.5% |
| Total gross margin for segments[3] | 33.9% | 33.6% | 31.7% | 32.3% | 26.7% |
| Consolidated total[4] | 33.0% | 32.8% | 27.0% | 31.9% | 26.3% |

1. Flash gross margin is calculated by dividing Flash gross profit by Flash revenue.
2. HDD gross margin is calculated by dividing HDD gross profit by HDD revenue.
3. Total gross margin for segments is calculated by dividing total gross profit for segments by total revenue.
4. 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 Reconciliations

## 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, contamination related charges, stock-based compensation expense, amortization of acquired intangible assets, employee termination, asset impairment and other charges, non-cash economic interest, 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-2 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:

**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.

**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.

**Contamination related charges.** In February 2022, a contamination of certain materials used in the company's manufacturing process occurred and affected production operations at the flash-based memory manufacturing facilities in Yokkaichi and Kitakami, Japan, which are operated through the company's joint business ventures with Kioxia Corporation (collectively, "Flash Ventures"). The contamination resulted in scrapped inventory and rework costs, decontamination and other costs needed to restore the facilities to normal capacity, and under absorption of 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.

**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.

**Non-cash economic interest.** 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 and the re-measurement of certain unrecognized tax benefits primarily related to tax positions taken in prior quarters, including interest. 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, 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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