**Operator**

(Operator Instructions) Our first question comes from the line of Katy Huberty with Morgan Stanley. Your line is open.

[**Katy Huberty**](http://seekingalpha.com/search/transcripts?term=Katy+Huberty&sasource=participant) - Morgan Stanley Equity Research

Yes, thanks, good afternoon. There is still some debate in the market around the sustainability of PC strength post Win XP. And I think your comments in the back-half you mentioned cloud and notebooks and gaming, but not desktops. So can you just talk about what you've seen in July around commercial desktop and whether that strength is continuing?

**Stephen Luczo**

I think it's early, Katy, but I mean what we are seeing right now is strength across all the segments.

[**Katy Huberty**](http://seekingalpha.com/search/transcripts?term=Katy+Huberty&sasource=participant) - Morgan Stanley Equity Research

Okay. And then as it relates to the constructive comments on the back-half, what do you think is driving that, is that just global improvement in macro, is that catch-up in capacity, demand as data has grown and orders have not over the last year, just curious what you think is driving the strength?

**Stephen Luczo**

I would say most of our customers would attribute it to just general macroeconomic strength. I do think there is, as we said, these changes between the deployment of storage and the demand for storage and those can fluctuate based on either time to deployment or utilization rates, and those are going to constantly flux over the period of years or quarters. But right now, I think the strength is being driven by macroeconomic factors.

[**Katy Huberty**](http://seekingalpha.com/search/transcripts?term=Katy+Huberty&sasource=participant) - Morgan Stanley Equity Research

Okay. And then just lastly given the potential for better fundamentals in the back half, what should we expect on the buyback in the first-half of fiscal 2015?

**Stephen Luczo**

We'll talk about our capital allocation plan at the strategic update in September.

[**Katy Huberty**](http://seekingalpha.com/search/transcripts?term=Katy+Huberty&sasource=participant) - Morgan Stanley Equity Research

Okay. Thank you.

**Stephen Luczo**

Yes, thanks.

**Operator**

Our next question comes from the line of Amit Daryanani with RBC Capital Markets. Your line is open.

[**Amit Daryanani**](http://seekingalpha.com/search/transcripts?term=Amit+Daryanani&sasource=participant) - RBC Capital Markets

Thanks a lot. Good afternoon, guys. Two questions; one, maybe you can just talk a little bit on the Enterprise Drives, what do you expect in the back half between the mission critical and the capacity-optimized drives? Do you expect both of them to see robust trend? Is one better than the other?

**Stephen Luczo**

Yes, Rock, you answer that.

[**Albert Pimentel**](http://seekingalpha.com/search/transcripts?term=Albert+Pimentel&sasource=participant) - President, Global Markets and Customers

Yes, this is Rocky Pimentel. So, on the enterprise side, we expect consistent improvement based on our OEM customers anecdotal and forecasted data. On the cloud side, I think our anticipation is the capacity driven products going more into the cloud side and we see probably a stronger sentiment in the cloud side as we go through the remainder of the back half of the year.

[**Amit Daryanani**](http://seekingalpha.com/search/transcripts?term=Amit+Daryanani&sasource=participant) - RBC Capital Markets

Got it. And if I can just clarify the second part, the $550 million of OpEx that you guys are talking about for the upcoming quarter. $35 million of that is related to extra weeks or extra, how should we think about $550 million run rate on a quarterly basis go forward?

[**Patrick O’Malley**](http://seekingalpha.com/search/transcripts?term=Patrick+O%E2%80%99Malley&sasource=participant) - Executive Vice President and Chief Financial Officer

It's $35 million and other – this is Pat, I'm sorry, this is Pat. These $35 million and other charges whether it's integration and other activities as we try to knit the companies together. But above that $22 million to $25 million is going to be the 14th week, so you can't attribute all the 14th week,but it's that plus other things, is that $35 million one-time disappears after Q1.

[**Amit Daryanani**](http://seekingalpha.com/search/transcripts?term=Amit+Daryanani&sasource=participant) - RBC Capital Markets

And is that…

**Stephen Luczo**

And then at the – and at the Strategic Update, we'll provide a better annual and quarterly outlook on OpEx, because these will be two quarters and on the Xyratex business and kind of a couple of months and at least on the knowledge of what other side looks like. So, we're going to give you more transparency about what the overall OpEx looks like at that time.

[**Amit Daryanani**](http://seekingalpha.com/search/transcripts?term=Amit+Daryanani&sasource=participant) - RBC Capital Markets

Got it. And I guess, Pat, just to clarify this thing of the extra week, is that a net neutral or bit of a drag to your operating margin and EPS?

[**Patrick O’Malley**](http://seekingalpha.com/search/transcripts?term=Patrick+O%E2%80%99Malley&sasource=participant) - Executive Vice President and Chief Financial Officer

It's a good question. I've been around this business a long time. This is probably my fifth cycle, 14 weeks. We certainly expect to get some marginal uplift on that 14th week, but the way OEMs negotiate on a quarter-to-quarter basis, you can have some debate on that. There's not too much debate on the OpEx or the other costs and they're fixed and we know those, so – but we've modeled it.

**Stephen Luczo**

It's a net negative on operating margin to answer your question, because you get the full week of expenses obviously. But you don't get a 1/14th increase in revenues, because the OEMs don't, they just negotiate quarterly and as you know we're heavily weighted towards OEM. So you get a revenue pick-up, but you don’t get a 1/14th revenuepick-up, but you certainly get a 1/14th operating expense pick-up, so…

[**Amit Daryanani**](http://seekingalpha.com/search/transcripts?term=Amit+Daryanani&sasource=participant) - RBC Capital Markets

That's helpful. Thanks a lot, guys.

**Operator**

Our next question comes from the line of Joe Yoo with Citi Research. Your line is open.

[**Joe Yoo**](http://seekingalpha.com/search/transcripts?term=Joe+Yoo&sasource=participant) - Citigroup

Thank you. So, I wanted to ask more of a longer-term strategy question, and more specifically to the NAS market, and obviously, you announced some products and, I wanted to ask that question, because the Soho market that you're targeting, it appears to be fairly sizeable. I mean there's, I think over 5 million firms just in the U.S. with 20 employees or less. So, and also your major storage customers don't really participate in that market. So could you help us, maybe, size that opportunity and, and how soon it could become a meaningful contributor to the P&L?

**Stephen Luczo**

I think the key to it being a significant contributor to the P&L revolves around software. I think still to-date, the main inhibitor to that market really achieving its full potential is that the software is difficult to use. And it's an area where we've been making investments and are trying to solve that problem. But to your point, the market is attractive. I want to say, shouldn't guessed at this, but I want to say this is $1 billion market or something like that when you take all the companies that we know and then hear about often and then maybe some of, what goes through integration.

I think the difficult part is, what goes through the VAR channel and SI channel that ends up being a NAS product, we lose visibility on things like that. But I do think that this is a substantial market that likes the DAS market as the drive industry started delivering more integrated products with software and hardware that, that's opportunity for us on the NAS side.

And again, our distribution channel really knows how to reach into VARs and SIs that have storage expertise, so I do think it's a potential but and so the software gets a little easier to use. I don't think it's going to be as addressable as it probably should be.

[**Joe Yoo**](http://seekingalpha.com/search/transcripts?term=Joe+Yoo&sasource=participant) - Citigroup

Got it. Thank you, Steve, for the color. And Dave, I believe in the past you talked about various cost levers like scrap, warranty, and freight, and where do you see opportunities in the second half to maybe further optimize costs?

[**Dave Mosley**](http://seekingalpha.com/search/transcripts?term=Dave+Mosley&sasource=participant) - President, Operations and Technology

I think we'll continue to pull those levers as much as we possibly can. There are some product transitions going on, for example, the 6 terabyte and things like that. So, as we get up the initial ramp and then are able to get our yields up and work those issues, we can continue to take costs out. So I think products transitions and more efficient use of internal components, high number, high component counts that cover fixed costs, things like that. There's a lot of opportunity there.

Also there are some synergies that we get from some of the acquisition stuff that we've done like, for example, Xyratex, making the supply chain flow better up and down. I think there will be some cost opportunities there as well.

[**Joe Yoo**](http://seekingalpha.com/search/transcripts?term=Joe+Yoo&sasource=participant) - Citigroup

Great. Thank you.

**Operator**

Our next question comes from the line of Joe Wittine with Longbow Research. Your line is open.

[**Joe Wittine**](http://seekingalpha.com/search/transcripts?term=Joe+Wittine&sasource=participant) - Longbow Research

Hi, thanks. If you're willing to, just a question on the rationale behind the LSI acquisition, I think the WarpDrive piece, the PCIe is self-explanatory, get you closer to the hyperscale guys. But I really want to ask you on the core SandForce, the standard FSPs. I know the standard control is typically focused on kind of the channel SSD and replacement SSD market, so just curious, any quick thoughts of how that second piece is complementary to Seagate?

[**Dave Mosley**](http://seekingalpha.com/search/transcripts?term=Dave+Mosley&sasource=participant) - President, Operations and Technology

Yes, first of all, we have a lot of controllers ourselves. Every hard drive has a controller as well. So there's complementary technology development that's going on that can be used back and forth. But I think germane to just how do you go to market if you will. The knowledge that you get from integrating with the various customers is pretty powerful. And I think insofar as thosearethe same customers that we're doing, we are going out and talking to with hard drives. I think there is and we understand the market segments really well and we can address both spaces. I think that's fairly powerful also.

The – I think everybody needs to keep in mind that this is really a flash controller. The interface side, we have a lot of expertise in anyway, whether it's SAS or SATA orsomething else, and then some of those can plug into your point about the PCIe cards we can also plug those in to that interfacing and go to market that way. But the NAND control piece is something obviously we've been doing a lot on for our hybrid drives.

Steve talked about how that market's growing quite a bit, so I think there's a lot of synergies there, I hope that answers your question.

[**Joe Wittine**](http://seekingalpha.com/search/transcripts?term=Joe+Wittine&sasource=participant) - Longbow Research

Great, thanks. And then switch gears to branded quickly, you said, you have some work to do on the, on product introductions coming up here. I don't know if you can give any more details there. And second, what is the reasonable expectation of kind of go-forward unit growth for brand? And I only asked, because your units grew only a point last year. I know Toshiba kind of aggressively grabs some share early in the year, which didn't help. But if you can give us your updated thoughts on what the long-term, mid-term secular growth rates is here?

[**Albert Pimentel**](http://seekingalpha.com/search/transcripts?term=Albert+Pimentel&sasource=participant) - President, Global Markets and Customers

Yes, this is Rocky Pimentel. So, I think we're still looking at a single unit direct-attached storage market for branded for the next couple of quarters that being the dominant product. But like Steve talked about, that the – today that the branded has pretty much serviced the small home office type category of products and then demands. But I think as we see our product's roadmap over the next 18 to 24 quarters, we'll start to be introducing additional more complex products in the NAS, with a focus on the user experience and the software offering.

So we totally recognize the opportunity as the segmentation between traditional – between real consumer and true small business emerges that – it's an opportunity for us to continue to offer low-end complex NAS storage to that segment.

**Stephen Luczo**

I think a lot of that where the real research on the market side, and Jamie can lean on this as well as this line between prosumer to small business to medium business, and which of those segments you are going to be serviced through HTDs through cloud offerings, whether or not it's an AWS-type solution or a hybrid solution where there is local storage as well as some cloud-based storage.

And so we are working on our architectures that, in partnership with some of our cloud customers there is utilizations where by having a hybrid product, non-prime storage, as well as cloud-based has some overall advantages either in terms of security or cost or bandwidth. So I think how that flushesout and which one of those kind of sub-segments you are talking about will have well different offers. But that notwithstanding, that animalthat is a pure NAS product for a lower-end less technically confident customer, the software has to get a lot easier.

**Operator**

Our next question comes from the line of Aaron Rakers with Stifel. Your line is open.

[**Aaron Rakers**](http://seekingalpha.com/search/transcripts?term=Aaron+Rakers&sasource=participant) - Stifel Nicolaus

Yes, thank you. I think you kind of dovetailed a little bit with the comments that you just made. Can you talk a little bit more about your Xyratex business and in particular your ability to position a solution sale into the cloud opportunities? Has that started to materialize? How much was the Xyratex revenue contribution this last quarter relative to the $100 million? And maybe talk about how we should think about the trajectory of that opportunity going forward?

**Stephen Luczo**

Jamie, do you want to handle it?

[**Jamie Lerner**](http://seekingalpha.com/search/transcripts?term=Jamie+Lerner&sasource=participant) - President, Cloud Systems and Solutions

Hey, Aaron, this is Jamie. Maybe I'll take a moment and highlight some of the accomplishments this quarter. ClusterStor which is our high performance computing business is gaining a significant amount of traction in the oil and gas and healthcare verticals especially genomic sequencing as well as seeing a lot of strength in the government sector for immense big data deployments.

Aaron, to give you an idea of the scale these projects, our team closed a 65 petabyte, 3-petaflop deal with a European weather service, as well as we recently won a 82 petabyte deal in partnership with Cray, that's delivering 1.7 terabytes per second for immense data processing to the U.S. government.

Of the Fortune Five, two of those oil and gas companies are using ClusterStor for their exploration and geospatial analytics. Now, for the cloud-scale folks that you talked about as a sign of that pipeline, we are responding to a 0.5 zettabyte and a full zettabyte storage opportunity for the world's largest cloud storage operators.

Few other points that are worth mentioning is also with ClusterStor we have an item called the Secure Data Appliance, which is the world's fastest data analytics engine. And this product achieved the Intelligence Community Directive, ICD 503 this quarter. And for those you don't know what that is, this is a group that oversees the analytics work for the Intelligence Community and has certified us for the world's most secure data projects for the U.S. Intelligence Community.

In addition, that ClusterStor business grew at over 210% this quarter. The Evolve business had its largest quarter in the last 10 years was – we have five deals that were over $500,000, so we are seeing the average sale price go up as we are able to, and working with Xyratex, meet the needs of much larger organizations. And in our OSSand OEM business which a lot of cloud providers are saying, will you actually build a custom box for us. We saw for the first time in over 10 quarters, that bookings were significantly ahead of revenue in that business, so all three businesses over-performed this quarter.

[**Aaron Rakers**](http://seekingalpha.com/search/transcripts?term=Aaron+Rakers&sasource=participant) - Stifel Nicolaus

Right. And so when I think about that opportunity or that business trajectory materializing and considering that you are stripping out the pass-through effect of what Xyratex would have been historically selling on hard disk drive content. How do I think about the margin profile and how that could progress and play into the Seagate story? And I'll cede the floor.

[**Patrick O’Malley**](http://seekingalpha.com/search/transcripts?term=Patrick+O%E2%80%99Malley&sasource=participant) - Executive Vice President and Chief Financial Officer

So let me take that Aaron, this is Pat, and if Jamie wants to add color, please, Jamie, add more color. But when we made the acquisition we knew it was the – the first thing, we were going to stabilize the asset and I think what you're hearing from Jamie is, we stabilize it and start reinvigorate the product lines, that's the good thing.

As we go through the fiscal year, we really, the only thing we really said was the revenue would be $500 million to $600 million. I can tell you here we'll probably get more color, but we really don’t want to break this business out, so it gets about $1 billion, but with that $500 million to $600 million, like I said, we are trending in the high part of that, but it won't be accretive during the first fiscal year, but it will thereafter.

I think the margins have a slight drag, but should trajectory through the course of the year get equal to and above. So we like the path, but there is a bit of reinvigorating that product line to drive that and Jamie stabilizing the existing and growing with the new.

[**Aaron Rakers**](http://seekingalpha.com/search/transcripts?term=Aaron+Rakers&sasource=participant) - Stifel Nicolaus

Very good. Thank you.

[**Patrick O’Malley**](http://seekingalpha.com/search/transcripts?term=Patrick+O%E2%80%99Malley&sasource=participant) - Executive Vice President and Chief Financial Officer

Yes.

**Operator**

Our next question comes from the line of Steven Fox with Cross Research. Your line is open.

[**Steven Fox**](http://seekingalpha.com/search/transcripts?term=Steven+Fox&sasource=participant) - Cross Research

Thanks. Good afternoon. First of all, could you just expand on your comments about the significant increase in average capacities that you are expecting for the second half of the year, where exactly you're seeing it, what's driving it from the customer-end?

And then secondly, can you help us put the 8% growth in exabytes versus the 4% decline year-over-year in revenues, what's making up the difference there? Thanks.

**Stephen Luczo**

Well, on the growth thus far, it's just – we're just using an average capacity for drive across the board, which is – from where it’s been the last several quarters and that’s across all customers. And we are not going to talk about customer specific or market specific.

**Unidentified Company Representative**

Clearly the high capacity drives are getting higher capacity and lower-end drives are going up in capacity, so there is multiple drivers driving the average size of the drive sold up.

**Stephen Luczo**

What's driving it is richer content and more people needing access to richer content.

[**Patrick O’Malley**](http://seekingalpha.com/search/transcripts?term=Patrick+O%E2%80%99Malley&sasource=participant) - Executive Vice President and Chief Financial Officer

And data, right.

[**Steven Fox**](http://seekingalpha.com/search/transcripts?term=Steven+Fox&sasource=participant) - Cross Research

Okay. And then just putting the…

**Stephen Luczo**

Would you restate the second half of the question?

[**Steven Fox**](http://seekingalpha.com/search/transcripts?term=Steven+Fox&sasource=participant) - Cross Research

Yes, I think you said in your prepared remarks that exabyte growth was up 8% year-over-year for the quarter, your revenues were down 4% year-over-year, so how would we split between the two?

[**Patrick O’Malley**](http://seekingalpha.com/search/transcripts?term=Patrick+O%E2%80%99Malley&sasource=participant) - Executive Vice President and Chief Financial Officer

I think as we highlight the back-half of the year, where the cloud was somewhat muted, where they're the richest drives. We saw the average capacity of drive go up, but we saw as we talked about in the last two quarters, where we had some whether it’s enterprise or cloud that was somewhat muted, we see that accelerating. So what we saw were growth in a lot of the – in the notebook drives, which are per unit, a lot lower capacity, but that even as those units go out, their capacity for drive is increasing.

So I think you have to look at the whole portfolio, but if you look at it individually you will see an increase of every drive capacity across the board. So every segments getting richer, it’s just the mix that's sort of covering that story up.

[**Steven Fox**](http://seekingalpha.com/search/transcripts?term=Steven+Fox&sasource=participant) - Cross Research

Thank you.

[**Patrick O’Malley**](http://seekingalpha.com/search/transcripts?term=Patrick+O%E2%80%99Malley&sasource=participant) - Executive Vice President and Chief Financial Officer

Yes, thank you.

**Operator**

Our next question comes from the line of Sherri Scribner with Deutsche Bank. Your line is open.

[**Sherri Scribner**](http://seekingalpha.com/search/transcripts?term=Sherri+Scribner&sasource=participant) - Deutsche Bank

Hi, thanks. Just going back to the Xyratex revenue question, I think you had said in this quarter, you thought that revenue would be about a $100 million in this quarter. It sounds like you guys think that it was higher than that based on the $500 million to $600 million annual revenue run-rate at this point, is that fair?

[**Patrick O’Malley**](http://seekingalpha.com/search/transcripts?term=Patrick+O%E2%80%99Malley&sasource=participant) - Executive Vice President and Chief Financial Officer

Yes, that's fair. Like I said, we're not breaking it out and until we get to a significant more scale, but that's probably a fair assessment.

[**Sherri Scribner**](http://seekingalpha.com/search/transcripts?term=Sherri+Scribner&sasource=participant) - Deutsche Bank

Okay. And then just looking at the guidance for $3.55 billion, am I – is it fair to assume that you are not including any revenue benefit from the fourth quarter, I'm sorry the extra week in the quarter?

[**Patrick O’Malley**](http://seekingalpha.com/search/transcripts?term=Patrick+O%E2%80%99Malley&sasource=participant) - Executive Vice President and Chief Financial Officer

We're some marginal, but not, as Steve says, it's not a 1/14, it’s very small.

[**Sherri Scribner**](http://seekingalpha.com/search/transcripts?term=Sherri+Scribner&sasource=participant) - Deutsche Bank

Okay. And then just looking at your guidance versus the TAM guidance, it looks like revenue is going to be up at the midpoint about 8% versus units up maybe 6% to 7%, is that because of better mix, why do you expect the ASPs to go up? Thanks.

[**Patrick O’Malley**](http://seekingalpha.com/search/transcripts?term=Patrick+O%E2%80%99Malley&sasource=participant) - Executive Vice President and Chief Financial Officer

That's all mix, as we talked about in the last call, where we see the strengthening in the back-half of the enterprise and the cloud, classic enterprise and cloud, that's being fuelled by that, and it's also being fuelled by richer content of richer of mix up of every segment drive.

[**Sherri Scribner**](http://seekingalpha.com/search/transcripts?term=Sherri+Scribner&sasource=participant) - Deutsche Bank

Thank you.

[**Patrick O’Malley**](http://seekingalpha.com/search/transcripts?term=Patrick+O%E2%80%99Malley&sasource=participant) - Executive Vice President and Chief Financial Officer

Yes.

**Operator**

Our next question comes from the line of Rich Kugele with Needham & Company. Your line is open.

[**Richard Kugele**](http://seekingalpha.com/search/transcripts?term=Richard+Kugele&sasource=participant) - Needham & Company, LLC

Thank you. Good afternoon. Actually just taking on the last comment, Pat, what do you think – in terms of pricing dynamics in the retail segments, are you expecting prices to go up there as well? And then I have a follow-up.

[**Patrick O’Malley**](http://seekingalpha.com/search/transcripts?term=Patrick+O%E2%80%99Malley&sasource=participant) - Executive Vice President and Chief Financial Officer

If I look at the whole portfolio, it’s relatively benign. It has been relatively benign for a while. We expect it to stay that way. We don’t – we’re not a company that place quarter-end deals. We sure just – we run a long-term business model and we expect pricing to be relatively stable, what we’ve seen over the last year.

**Stephen Luczo**

And when you say retail, Richard, are you talking about branded?

[**Richard Kugele**](http://seekingalpha.com/search/transcripts?term=Richard+Kugele&sasource=participant) - Needham & Company, LLC

Yes.

[**Patrick O’Malley**](http://seekingalpha.com/search/transcripts?term=Patrick+O%E2%80%99Malley&sasource=participant) - Executive Vice President and Chief Financial Officer

So we don’t see price rises, but we see relatively price stability.

**Stephen Luczo**

I’d say that the price competition has been less aggressive than it was earlier in the year.

[**Albert Pimentel**](http://seekingalpha.com/search/transcripts?term=Albert+Pimentel&sasource=participant) - President, Global Markets and Customers

Yes, and I would say, this is Rocky Pimentel, where we see a benefit of mixing up of capacities in the retail portfolio, strength in the one terabyte, two terabyte offerings, and as we continue to go out over the next few quarters, so certainly that’s going to be positive impact to the retail business across the industry basically.

[**Richard Kugele**](http://seekingalpha.com/search/transcripts?term=Richard+Kugele&sasource=participant) - Needham & Company, LLC

Okay, and secondly on the margins, as you look at the balance of the year taken into account Avago and what you’re doing with the Xyratex business, do you think that there’s greater leverage on the gross margin side or on the operating margin side?

[**Patrick O’Malley**](http://seekingalpha.com/search/transcripts?term=Patrick+O%E2%80%99Malley&sasource=participant) - Executive Vice President and Chief Financial Officer

For the fiscal year, I think we have more leverage on the gross margin, the operating leverage will be a little more difficult during fiscal 2015 until we get to scale and as we knit these companies together to get more efficiencies as Dave highlighted on the supply chain as we look at all the facilities, we got to knit those in but that’s going to be the challenge if you want to think of it that way for us in fiscal 2015 to set up a good 2016.

But the gross margin leverage I think we’re going to have tools to optimize that better than the operating for the first 12 months.

[**Richard Kugele**](http://seekingalpha.com/search/transcripts?term=Richard+Kugele&sasource=participant) - Needham & Company, LLC

Okay and then just lastly, Steve, you mentioned that for the first time in four years, you’re starting to see a little bit better demand and visibility out of the OEMs. I’m just interested, are you seeing any changes in behavior regarding inventory or hubs or how they want to manage the business this time around or do you think you can maintain the same supply demand discipline that’s been in place for few years?

**Stephen Luczo**

No, I didn’t say OEMs, I said customers.

[**Richard Kugele**](http://seekingalpha.com/search/transcripts?term=Richard+Kugele&sasource=participant) - Needham & Company, LLC

For Customers.

**Stephen Luczo**

And I think I'll do a quick answer and then I’ll let Dave talk on the operational side, which is really what you asked. But I would say across the customer base globally, there’s a greater degree of confidence about what’s ahead of us for the next four quarters than what I had felt anytime in the last – since the debacle of 2008 September. And we’ve had a couple of starts before as I mentioned on the last call, but this is I think the first time that’s actually sustained itself here at the end of the summer.

And I think that’s encouraging and then in terms of the operational side, I think, things just continue to get better in terms of people understanding that as my friend, John Monroe says inventory is not an asset, Velocity is important. And therefore, lean supply chains are where people make money. But I’ll let Dave talk to that because we’ve made a lot of good progress with some of our key customers there. And in that case it has been mostly OEMs.

[**Dave Mosley**](http://seekingalpha.com/search/transcripts?term=Dave+Mosley&sasource=participant) - President, Operations and Technology

Right, to that end, Rich, we’ve had a lot of success optimizing freight lanes, using the right kind of freight, whether it’s ocean or rail, not air, and using super hubs rather than individual jet-hubs [ph] for everybody, to do late stage postponement and things like that, that's really helped our inventory positions and that’s helped by the fact that some of the big OEMs are working complexity across every segment.

They’re doing a really good job there. We can always redeploy those drives out of the channel or whatnot if they don’t have the demand and I think just in the last few years, that’s been a market change in our industry. We just continue to work on that systems that enable that with our key partners.

[**Richard Kugele**](http://seekingalpha.com/search/transcripts?term=Richard+Kugele&sasource=participant) - Needham & Company, LLC

Great, excellent. Thank you very much.

**Operator**

Our next question comes from the line of Monika Garg with Pacific Crest. Your line is open.

[**Monika Garg**](http://seekingalpha.com/search/transcripts?term=Monika+Garg&sasource=participant) - Pacific Crest Securities

Thanks for taking my question. Just a quick – the market share was just a bit lower in the quarter, about 39 points, usually it’s been 40% around, any particular reason or you think it’s just quarter-over-quarter noise?

**Stephen Luczo**

No, I think it’s quarter-to-quarter noise. Again, the industry still has competitively at the end of the quarter that Seagate tends not to participate in, and there’s also big shifts on depending on where your relationship is with which gaming company and you are at in the cycle with that gaming company. You could see SharePoint moves off of a point. So half point moves are noise level to us. We believe we’re going to win with good solid product execution, better performance, better reliability, and we’re not worried about where the share is at these levels.

This is a revenue share, our exabyte share has been relatively flat for the last four or five quarters. And we really focus probably more right now on revenue share and exabyte share than we do on unit TAM share as long as we are getting enough absorption. Because of the shift, the higher capacity for drive that we’re seeing across the portfolio, we’re absorbing heads and disks and that’s what we need to do.

[**Monika Garg**](http://seekingalpha.com/search/transcripts?term=Monika+Garg&sasource=participant) - Pacific Crest Securities

Then just as a follow-up, Seagate currently uses much higher external media and head capacity. Do you think you will move more of it in-house, just maybe it could help the margins more?

**Stephen Luczo**

If we were really short-term focused that would be something we could do. But our thesis is that there will be long-term constraints in the supply of storage versus the demand of storage. And therefore, we believe the partnerships that we have with our head vendors and our disk vendors and other parts vendors will be well served over a longer-term view, where we can more efficiently use our capital and frankly more efficiently use our R&D dollars as we are with some of our partners right now.

[**Monika Garg**](http://seekingalpha.com/search/transcripts?term=Monika+Garg&sasource=participant) - Pacific Crest Securities

All right. Thanks a lot. That’s all from me.

**Operator**

Our next question – our last question comes from the line of Ananda Baruah with Brean. Your line is open.

[**Ananda Baruah**](http://seekingalpha.com/search/transcripts?term=Ananda+Baruah&sasource=participant) - Brean Capital, LLC

Hey, thanks, guys, for squeezing me in. Two, if I could. The first, Steve, is for you with regards to your comments around, I guess, 12-month visibility. I guess 12-month visibility has sort of increased demand to go along with the customer visibility there. Does that include your hyperscale customers? And I guess really what my question is, do we have maybe longer than a two-quarter deployment cycle here with hyperscale?

**Stephen Luczo**

Again, my comments were about what customers are seeing across the board in terms of the macro trends in the world and the confidence it gives them in their business models. You can’t draw one to one correlations and what does that mean, this hyperscale customer or that hyperscale customer.

Every one of those companies that are providing public, cloud services are operating under different business models with different architectures, different applications, different deployment rates. So I’d hate to paint a big broad stroke other than the general confidence level of people running technology companies or that are involved with the business of technology as strong as I’ve seen it in four or five years.

[**Ananda Baruah**](http://seekingalpha.com/search/transcripts?term=Ananda+Baruah&sasource=participant) - Brean Capital, LLC

Okay. Got it, guys, that's helpful. And then my follow-up is with regards to gross margins, you're forecasting flat gross margins, even with the cost load of the acquisition, which would suggest gross margins, I guess, up year-over-year without that load. And then I guess there was some commentary around having leverage through the year with regard to the acquisitions to get some gross margin leverage.

So my question is, we had a few quarters of year-over-year gross margin increases, sort of on an apples-to-apples basis, without the acquisitions, do you think we're in sort of an environment now where that kind of dynamic could more or less continue for the foreseeable future?

And then the second part is, given you have levers on gross margin from the acquisition, should we expect a little bit more expansion even on top of that over a reasonable period of time?

**Stephen Luczo**

We’re going to talk about the long-term gross margin models in September. I think viewing the company without the acquisitions at this point is irrelevant. I think the trends are, again, that if the fundamental demand is towards higher capacity per drive, subject to a benign relatively, rational pricing environment, where we match supply and demand closely and don’t do silly things to, take a point of share for no obvious reason.

Then yes, the general margin structure improves from the industry, but it has to. For us to hit the demand profiles that we see out in 2016 or 2017, we will not be able to do it on capital to revenue of 6% to 8%, and I don’t think, we're going to be able to do it on 28 points of gross margin. I mean we just – to deploy the amount of capacity that we have to, to hit the multiple zettabytes of demand out in 2017 or 2018, we’re going to have to establish more consistent business models. So if it isn’t moving in that direction, the industry is going to be even more challenged.

[**Ananda Baruah**](http://seekingalpha.com/search/transcripts?term=Ananda+Baruah&sasource=participant) - Brean Capital, LLC

Got it. Appreciate that.

**Stephen Luczo**

I want to thank everybody for taking time on the call today. We will see many of you prior to the next call, because we have the Analyst Day on September 12. In the meantime, we thank you for your continued support.

**Operator**

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may all disconnect. Everyone have a good day.