## Summary

The call begins with standard protocol and disclosures from the operator preceding the summary by the CEO Steve Milligan. The general tone of the call is upbeat, highlighted performance in line, or ahead of expectations from the market for the quarter ending in June 2013. Milligan mentions adjustment of production levels “to prevailing demand conditions,” which I assume to be cautiously worded decrease in production output. There is some muted discussion about PC sales declining, but it is offset by optimism about growth in private and public cloud storage.

Milligan highlights the company’s role in “digital data growth”, and highlighted applications that rely on extremely large volume, such as a flight purchasing app that processes 200 billion flight reservations. In broad terms there is a prediction that global storage needs will increase 10x over an 8 year period ending in 2020.

There is discussion about Western Digitals investments in other companies, including acquisitions of sTec (enterprise SSDs), VeloBit (storage optimization software), and Skyera (storage arrayes. presumably non-aquisitive) . These investments all seem to be aimed at the enterprise and cloud storage markets. There is a mention of innovation and differentiation over the competition. The primary examples given were seven-disk helium-sealed drives, and low profile solid state and hard drives for ultraportable devices.

The financial performance was presented by CFO, Wolfgang Nickl, attributed upside financial performance to a better than expected “business mix” (more high margin sales), and a lower than expected price decline. Western Digital’s R&D reprented 5% of revenue. The company shipped 59.9 million hard drives at an average price of $60, resulting in quarterly revenue of $3.7B, and $416M net income @ $1.71/share. The company predicts a modest increase in total available market (TAM) to 135-140 million units, and an earnings per share ration of $1.95-$2.05.

## Full Text

**Transcript Call Date** 07/24/2013

**Operator**: Good afternoon, and thank you for standing by. Welcome to Western Digital's Fourth Quarter Financial Results for Fiscal Year 2013. Presently, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. As a reminder, this call is being recorded.

Now, I will turn the call over to Mr. Bob Blair. Thank you. You may begin.

**Robert J. Blair - IR**: Thank you. We will be making forward-looking statements in our comments and in response to your questions today concerning, growth in the storage industry and our position and opportunities in the industry; industry demand for the September quarter; our production levels and capital expenditures; customer response to our product offerings and our financial performance including our financial results expectations for the September quarter.

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, including those listed in our 10-Q filed with the SEC on May 3, 2013. We undertake no obligation to update our forward-looking statements to reflect new information or events.

In addition, references will be made during this call to non-GAAP financial measures. Reconciliations of the differences between the historical non-GAAP measures we provide during this call to the comparable GAAP financial measures are included in the quarterly fact sheet posted in the Investor Relations section of our website. The forward-looking guidance we provide during this call excludes certain items such as amortization of intangibles related to the HGST acquisition, certain tax related matters, certain employee termination benefits and other charges. Because the amount of these items is not fully known to us at this time, we are unable to provide guidance for or a reconciliation to the most directly comparable GAAP financial measures. The impact of these excluded items may cause the estimated non-GAAP financial measures to differ materially from the comparable GAAP financial measures.

Until our acquisition of sTec closes, Western Digital and sTec remain an independent companies, so we will not be taking any questions about sTec's business or its financial performance today. We ask to the analysts limit their comments to a single question and one follow-up question in today's Q&A session. I also want to note that copies of remarks from today's call will be available on the Investor section of Western Digital's website immediately following the conclusion of this call.

I will now turn the call over to Steve Milligan, President and Chief Executive Officer of Western Digital.

**Stephen D. Milligan - President and CEO**: Good afternoon, and thank you for joining us. After my opening remarks, Wolfgang Nickl will provide additional commentary on our June quarter results and outlook for the September quarter.

I am pleased with our performance in the June quarter. Our financial results were strong, including significant free cash flow generation, reflecting outstanding execution by our HGST and WD subsidiaries.

**<2/4>**

Industry demand in the June quarter was in line with our expectations and we expect volume in the September quarter to be up modestly. Our production levels will be adjusted to prevailing demand conditions.

Our growing participation in the storage market continues to highlight our broad-based role in the important and secular trend of digital data growth. We anticipate that the demand for exabytes of storage will grow by at least 34% per year through 2020, with exabytes shift rising from 600 in 2012 to 5,900 in 2020.

With advancements in storage, processing power, software, and big data analytics, storage requirements are increasing significantly. There are thousands of new applications that are emerging based on new capabilities. An excellent example is the capability of one website that is processing 200 billion flight reservations to advise its users when to optimally buy airline tickets.

It is clear from applications like these that storage and the utilization of vast amounts of data are enabling breakthrough innovations, providing tangible support to underpin these data growth forecasts. Our goal is to innovate and differentiate our solutions to help our customers create value in this dynamic environment.

Customers continue to respond favorably to the breadth of storage solutions we are providing. The Western Digital platform is unique, powerful, and market-driven, underpinned by increasingly collaborative customer relationships leveraging our rich engineering heritage and resources.

For our fiscal year ended in June, approximately 50% of our revenue was derived from applications and markets that are powering the public and personal cloud. While we are encouraged by recent innovations in the PC space, and with less than half of our revenue as we exited fiscal 2013.

The storage industry is experiencing dramatic change and we are participating in the high-growth markets of the future, investing in innovation and strategic acquisitions. In the last year, we have led the industry with the introduction of several new advanced solutions, including our seven-disk helium-sealed drives for cloud storage, our low-profile 5 millimeter and 7 millimeter solid state hybrid drives and hard drives for ultraportable devices; and new hard drive and NAS solutions for small and medium businesses. All of these products have been well received by our customers.

At our Investor Day last September, we indicated that we had established a strong position in Enterprise solid-state storage with our family of SAS-based SSD solutions. We also indicated that we were evaluating an expansion into other areas of this market. We concluded that solid state storage will play an increasingly strategic role through continued innovation and differentiation.

As a result, we recently made several important investments to strengthen and expand our Enterprise SSD capabilities, including our proposed acquisition of sTec, an early pioneer in enterprise class SSDs; the acquisition of VeloBit, a provider of high-performance storage I/O optimization software; and our investment in Skyera, a provider of very high-performance storage arrays. The sTec and VeloBit acquisitions will augment our existing technology position and IP portfolio in one of the industry's fastest growing markets.

<3/4>

In summary, we are pleased with our performance and position in today's changing storage industry, and we are continuing to take steps that will enhance our ability to become one of the world's leading technology companies.

I will now turn the call over to Wolfgang.

**Wolfgang U. Nickl - EVP and CFO**: Thank you, Steve. We're pleased with our June quarter performance as it demonstrates the resilience and strength of our business model, our sustained strong execution, and the continued change of our business mix.

The HDD industry shipped approximately 133 million units during the June quarter, slightly down from the March quarter, and in line with our expectations in late April. In our business, we saw strength in Enterprise, stable quarter-over-quarter performance in Client and Consumer Electronics, and anticipated seasonal softness in Branded Products.

On a year-over-year basis, our business mix reflects our strong participation in growing cloud-related markets, with capacity enterprise and Branded Products up significantly. Our distribution and retail channel inventory remains lean, and our analysis suggests that inventory levels at our OEM customers remain at reasonable levels.

Revenue for fiscal year 2013 was $15.4 billion. A broad-based participation in the secular growth of digital data is resulting in a more diversified mix of our revenue. Over the last five years, our non-PC-related business has grown from 35% to 50% of our revenue. Our non-PC-related business includes our Enterprise, Branded, and Consumer Electronics businesses.

Our revenue for the June quarter was $3.7 billion. We shipped a total of 59.9 million hard drives at an average selling price of $60. We exceeded our revenue guidance due primarily to better-than-expected business mix and lower than expected like-for-like price decline. Our gross margin for the quarter was 28.2%. Non-GAAP gross margin was 29.1% excluding $35 million of amortization expense related to acquire the HGST intangible assets. Non-GAAP gross margin was approximately 60 basis points better than our guidance, reflecting better than expected business mix and capacity utilization, and lower than anticipated price decline.

R&D and SG&A spending totaled $582 million for the June quarter. SG&A included $18 million of amortization expense related to acquire the HGST intangible asset and other unrelated charges. We incurred charges of $8 million in the June quarter, reflecting continued alignment of our operations with anticipated market demand. Tax expense for the June quarter was $35 million or 7.8% of pretax income.

Our net income for the June quarter totaled $416 million or $1.71 per share. On a non-GAAP basis, net income was $477 million or $1.96 per share. For fiscal year 2013, our net income totaled $1.7 billion or $6.75 per share. On a non-GAAP basis, net income was $2.1 billion or $8.53 per share.

Turning to the balance sheet; we generated $684 million in cash from operations during the June quarter and our free cash flow totaled $548 million. For fiscal year 2013, we generated $3.1 billion in cash from operations and our free cash flow totaled $2.2 billion.

<4/4>

Our CapEx for the June quarter totaled $136 million. For the full fiscal year, we invested $952 million or 6.2% of revenue including approximately $191 million for expenditures related to the floods in Thailand. Excluding the flood-related spending, we would have been at 5% of revenue reflecting our measured approach to capital spending in the current demand environment.

As part of our capital allocation strategy first outlined last September at our Investor Day, we repurchased 4.4 million shares for $235 million during the June quarter. For fiscal 2015 in total, we repurchased 19 million shares for $842 million.

We also declared a dividend in the amount of $0.25 per share or total of $59 million during the June quarter. In total, we declared a dividend of $1 per share or a total $240 million during fiscal year '13. We exited Q4 with total cash and cash equivalents of $4.3 billion of which $1.5 billion was in the U.S.

As disclosed in our press release, all financial information for the June quarter does not include any additional accruals as a result of the decision of the Minnesota Court of Appeals. We're in the process of reviewing the decision to determine whether or not to record an accrual for the June quarter.

I will now provide our guidance for the September quarter, which does not include the estimated impact of the proposed sTec acquisition. For the September quarter, we're cautiously optimistic about a modest increase in the TAM, and we anticipate sustained strong performance within our business model.

We expect; a total available market of 135 million units to 140 million units, up from the June quarter, primarily due to a seasonal uptick in gaming and Branded Product; revenue in the range of $3.7 billion to $3.8 billion, reflecting modest price declines and a seasonal change in business mix; gross margin well within our business model and approximately flat with the prior quarter, excluding the amortization of HGST intangibles; R&D and SG&A spending of approximately $550 million, excluding the amortization of HGST intangibles; a tax rate within our 7% to 10% model, and a share count of approximately 242 million. Accordingly, we estimate non-GAAP earnings per share of between $1.95 and $2.05 for the September quarter.

In summary, we are pleased with our continued strong performance, and we are excited about our opportunity to play an increasingly strategic role in the evolving – in the involving of the storage market.

Operator, we are now ready to open the call for questions.