

October 26, 2023

Rating:

**OUTPERFORM**

Price:

**\$36.54**

12-Month Price Target:

**\$60.00**

Analysts

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## Western Digital (WDC)

### WDC "Ends" Merger Talks with Kioxia per Nikkei

According to the Nikkei, [WDC has canceled talks to merge its Flash business with Kioxia](#) amidst an inability to reach an agreement with Bain and Hynix regarding valuation. This news follows Hynix's comments last night indicating the Korean memory vendor was objecting to the proposed deal given its belief that the terms undervalued its holdings.

#### Wedbush's View

While we struggle with Hynix's reasoning in holding up a deal, we have a less difficult time believing that Bain may have been seeking more favorable terms that ultimately proved objectionable to WDC.

We don't, however, see this news as necessarily negating the potential for shareholders to obtain value via WDC's strategic review. As we have noted before, the primary immediate catalyst for value creation from a deal is tied to the split of WDC's NAND and HDD businesses resulting from any agreement, vs. the eventual merger of WDC's and Kioxia's operations. And following today's stock weakness, we believe WDC's NAND business remains significantly undervalued (our math based on intraday prices and using STX's valuation as a proxy to value WDC's standalone HDD business suggests the NAND business is being valued by the market at less than \$1B).

10/26/23	Price USD	MktCap\$M	EV\$M	
STX.O	\$65.97	13,656	18,673	
WDC.O	\$36.54	11,729	16,776	

HDD - Revenues \$M	Revs NTM	P/Sales	EV/Sales	
STX	\$6,682	2.04X	2.79X	
WDC - Implied Multiples	\$5,821	2.04X	2.79X	
WDC - Implied EV - HDD				\$16,267 Implied EV - HDD

NAND - Revenues \$M (NTM)	Revs NTM	P/Sales	EV/Sales	
WDC	\$6,808	-0.02X	0.07X	510 Implied Enterprise Value for NAND

Source: Thomson Reuters & Wedbush Securities estimates

As a reminder, WDC's ongoing strategic review was tied to Elliott Management's investment stake, with Elliott highlighting in its initial letter to the board, the shareholder value that was being lost by the combination of the HDD and NAND businesses. With Elliott still invested in WDC (along with Apollo), we believe there is a meaningful probability that the conclusion of the strategic review will still end with a split of WDC's businesses (with or without a Kioxia agreement), a result that we see as creating significant value for shareholders.

Net, with both HDD and NAND fundamentals (particularly the latter) improving and creating the probability of substantial upside vs. current Street estimates and the potential for a positive strategic outcome still ahead, we are reiterating our positive view on WDC and would advocate adding to positions on weakness tied to the Nikkei article.

**Price Target:** We are maintaining our OUTPERFORM rating on WDC and target price of \$60 that we base on a PE multiple of ~7X applied to our FY2025 EPS estimate (net debt).

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## Valuation

We arrive at our target price by applying a PE multiple of ~7X to our FY2025 estimate (net debt).

## Company Description

WDC is a maker of HDD and NAND based storage solutions.

## Risks to the Attainment of Our Price Target and Rating:

YMTC successfully ramps production of flash and creates a longer term downturn in the NAND market

The flash market undergoes consolidation leading to a relatively rapid rationalization of supply

Customer spending improves faster than we anticipate creating better demand for flash and HDDs vs. our expectations

WDC achieves more rapid success with MAMR vs. what we believe is the expected ramp time frame, providing it with a capacity advantage vs. its peers

If STX succeeds with its HAMR technology, it could create a large gap between it and the other drive vendors

WDC's relationship with Toshiba deteriorates, creating questions around the future of the JV

## Analyst Certification

I, Matt Bryson, certifies that the views expressed in this report accurately reflect my personal opinion and that I have not and will not, directly or indirectly, receive compensation or other payments in connection with my specific recommendations or views contained in this report.

## Mentioned Companies

Company	Rating	Price	Target
Western Digital	OUTPERFORM	\$36.54	\$60.00
Seagate Technology Holdings PLC	NEUTRAL	\$65.25	\$60.00

## Investment Rating System:

**OUTPERFORM:** Expect the total return of the stock to outperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

**NEUTRAL:** Expect the total return of the stock to perform in-line with the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

**UNDERPERFORM:** Expect the total return of the stock to underperform relative to the median total return of the analyst's (or the analyst's team) coverage universe of the next 6-12 months.

The Investment Ratings are based on the expected performance of a stock (based on anticipated total return to price target) relative to the other stocks in the analyst's coverage universe (or the analyst's team coverage).\*

Rating distribution (as of October 26, 2023)	Investment Banking Relationships (as of October 26, 2023)
OUTPERFORM: 60.84%	OUTPERFORM: 4.21%
NEUTRAL: 37.30%	NEUTRAL: 1.25%
UNDERPERFORM: 1.86%	UNDERPERFORM: 0.00%

The Distribution of Ratings is required by FINRA rules; however, WS' stock ratings of Outperform, Neutral, and Underperform most closely conform to Buy, Hold, and Sell, respectively. Please note, however, the definitions are not the same as WS' stock ratings are on a relative basis.

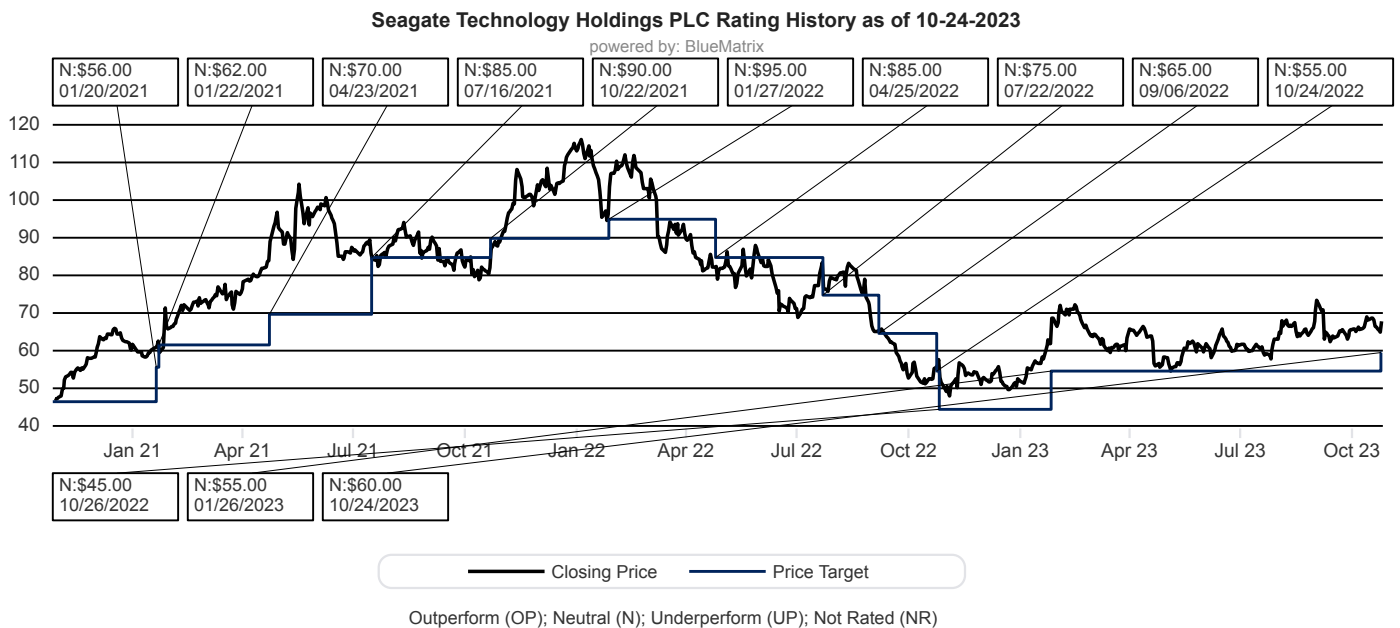
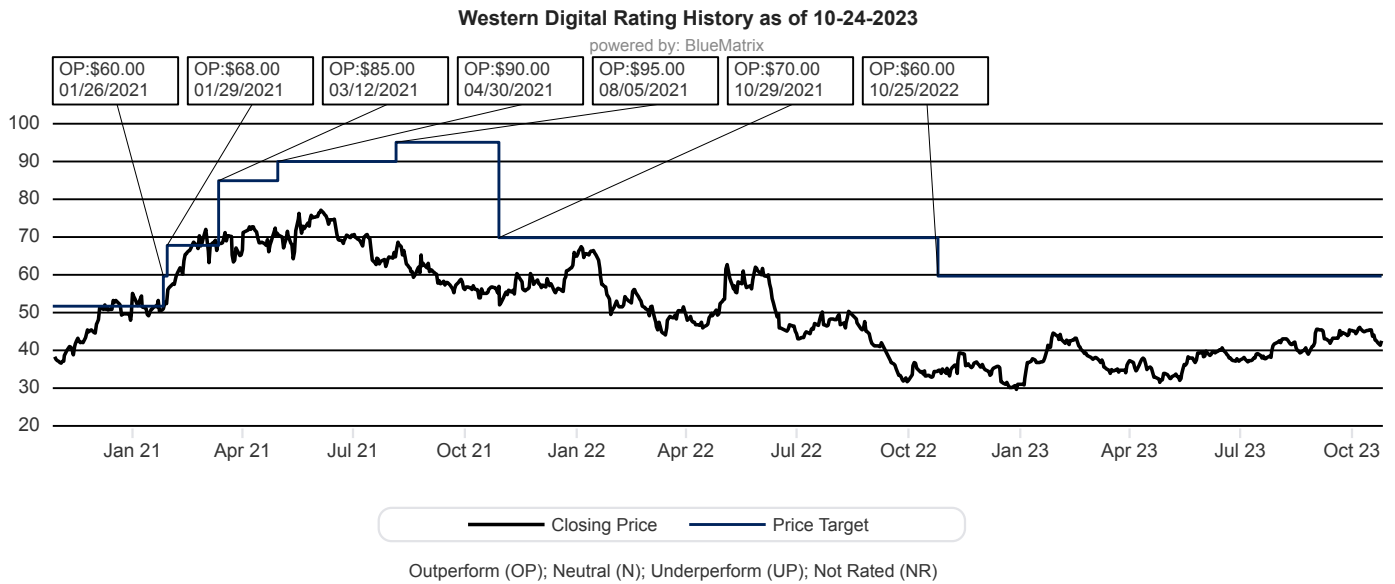
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## Company Specific Disclosures

This information is subject to change at any time.

1. WS makes a market in the securities of Western Digital and Seagate Technology Holdings PLC.

## Price Charts



Wedbush disclosure price charts are updated within the first fifteen days of each new calendar quarter per FINRA regulations. Price charts for companies initiated upon in the current quarter, and rating and target price changes occurring in the current quarter, will not be displayed until the following quarter. Additional information on recommended securities is available on request.

Disclosure information regarding historical ratings and price targets is available: [Research Disclosures](#)

\*WS changed its rating system from (Strong Buy/ Buy/ Hold/ Sell) to (Outperform/ Neutral/ Underperform) on July 14, 2009.

Applicable disclosure information is also available upon request by contacting the Research Department at (212) 833-1375, by email to [leslie.lippai@wedbush.com](mailto:leslie.lippai@wedbush.com). You may also submit a written request to the following: Wedbush Securities, Attn: Research Department, 142 W 57th Street, New York, NY 10019.

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