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Seagate Technology Holdings Plc (STX)

Q2 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and welcome to the Seagate Technology Fiscal Second Quarter 2025 Conference Call. All participants will be in a listen-only mode. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Shanye Hudson, Senior Vice President, Investor Relations. Please go ahead.

Shanye Hudson

Senior Vice President-Investor Relations & Treasury, Seagate Technology Holdings Plc

Thank you. Hello everyone, and welcome to today's call. Joining me are Dave Mosley, Seagate's Chief Executive Officer; and Gianluca Romano, our Chief Financial Officer. We've posted our earnings press release and detailed supplemental information for our December quarter results on the Investors section of our website.

During today's call, we'll refer to GAAP and non-GAAP measures. Non-GAAP figures are reconciled to GAAP figures in the earnings press release posted on our website and included in our Form 8-K. We've not reconciled certain non-GAAP outlook measures because material items that may impact these measures are out of our control and/or cannot be reasonably predicted. Therefore, a reconciliation to the corresponding GAAP measures is not available without unreasonable effort.

Before we begin, I'd like to remind you that today's call contains forward-looking statements that reflect management's current views and assumptions based on information available to us as of today and should not be relied upon as of any subsequent date. Actual results may differ materially from those contained in or implied by these forward-looking statements and are subject to risks and uncertainties associated with our business.

To learn more about the risks, uncertainties and other factors that may impact our future business results, please refer to the press release issued today and our SEC filings, including our most recent annual report on Form 10-K and quarterly report on Form 10-Q, as well as the supplemental information, all of which may be found on the Investors section of our website. Following our prepared remarks, we'll open the call up for questions. In order to provide all analysts with the opportunity to participate, we thank you in advance for asking one primary question and then reentering the queue.

With that, I'll now hand the call over to you, Dave.

William David Mosley

Chief Executive Officer & Director, Seagate Technology Holdings Plc

Thank you, Shanye, and hello, everyone. Seagate closed out calendar 2024 on a strong note, driving 7% sequential revenue growth in the December quarter. Our non-GAAP gross margin expanded by more than 200 basis points and non-GAAP earnings per share exceeded $2 for the first time in 12 quarters, underscoring our continued focus on profitability.

Our performance was supported by increased demand across nearly all markets we serve with the most significant growth in the cloud sector. This broad-based demand from global cloud customers led to an almost doubling of nearline product revenue in the December quarter on a year-on-year basis and close to 60% nearline revenue growth for the entire calendar year.

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We are experiencing strong momentum with our areal density-driven road map, which positions us well to offer compelling storage solutions to our customers and also supports our expectation for significant profitable revenue growth for fiscal 2025 and beyond. We continue to advance our product road map and have achieved several key milestones related to our HAMR-based Mozaic platform in the December quarter.

We completed qualification and started to ramp HAMR-based products to our initial CSP customer. Earlier today, we also announced sampling of Mozaic drives with capacities of up to 36 terabytes. Overall, Seagate is in an outstanding competitive and technology position in a strengthening demand environment.

Prior to discussing the end market environment, I'll briefly address the production issue that we disclosed last month, which has led to supply constraints for the March quarter. Gianluca will provide details on our fiscal Q3 outlook. However, I can confirm that this issue has been resolved. We are able to meet our build-to-order commitments to major customers, and we expect the revenue impact to be limited to the March quarter.

Now turning to the mass capacity markets. Cloud remains the primary demand driver. The surge in nearline product demand that I referenced earlier aligns with the nearly 50% increase in cloud capital investments made by our customers in 2024 with their CapEx expected to continue growing in calendar 2025.

We believe hyperscale customers are continuing to manage their inventory levels well while making infrastructure investments to support growing demand for traditional services, advertising and e-commerce, as well as emerging GenAI applications. These applications will be prolific creators of data. And given that a substantial volume of the data will be stored on HDDs, we expect GenAI to drive future mass capacity storage growth. This is particularly true of data-rich imagery and video content created by GenAI models, which is projected to expand nearly 170x times from 2024 through 2028.

Today, HDDs play a crucial role in housing the massive data sets required for training AI models, serving as central repositories when these data sets are not actively being processed by GPUs. These mass storage data lakes form the backbone of trustworthy AI by storing checkpoints or snapshots of AI model data sets, ensuring that data is both retained and available in the future for continuous model refinement.

A recent survey of over 1,000 business leaders and AI decision-makers underscores the critical importance of data retention and checkpoints in enhancing the quality of AI outcomes. These insights are not only applicable for the cloud, but also the edge where the vast majority of data is generated. The enterprise markets fall under this edge umbrella. We expect enterprises to replicate and store more data locally at the edge as AI computing and inferencing moves closer to the source of data generation.

VIA is another opportunity-rich market at the edge. For some time now, we've spoken about the increased adoption of AI analytics within the VIA markets, which help form actionable insights from data for applications such as smart cities and smart factories. In the December quarter, average drive capacities for VIA products set a record, reflective of increasing use of video analytics, as well as longer data retention periods. Overall, we believe mass capacity storage remains both an enabler and a beneficiary of these emerging data trends.

Seagate is in a great position to address the resulting demand growth through our areal density-driven product road map. As we've shared in the past, we are maintaining a disciplined approach in planning our production capacity. We will leverage technology transitions to support exabyte growth rather than adding new head and media unit capacity. Looking at our long-term road map, our Mozaic-based technology provides Seagate with a

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highly capital-efficient means to satisfy growing exabyte demand, to deliver a strong TCO value proposition for our customers and expand profitability over the long term for the company.

Today, we have continued to ramp our 24 terabyte, 28 terabyte PMR platform which has rapidly become our top product platform in terms of both revenue and exabyte shipments. At 30 terabytes or higher, our Mozaic HAMR technology delivers leading capacities and is gaining momentum across our customer base. There are now multiple customers qualified on this platform across each of the mass capacity end markets. Currently, we are ramping volume to our lead CSP customer while progressing on qualifications at additional cloud and hyperscale customers. These qualifications will set the foundation for the next phase of our Mozaic volume ramp starting in the second half of calendar 2025.

We are confident that our Mozaic HAMR technology provides a strong and sustainable competitive advantage at scale for mass capacity storage and underpins a cost-efficient road map to build on those advantages. Consistent with feedback we've received from many cloud customers, AWS highlighted at their recent re:Invent conference that adopting the highest capacity hard disk drives allows their storage system architecture to lower costs, conserve floor space and reduce power consumption.

Data center architects will continue to adopt both hard disk drive storage and compute-oriented memory technologies such as NAND flash to support the breadth of their workloads. NAND is best suited for high-throughput, low-latency tasks, while hard disk drives remain the preferred storage solution for the bulk of data storage needed in the cloud. We do not see these dynamics changing over the foreseeable future due to several advantages that HDDs hold over NAND. HDDs offer customers at least 6 times lower cost per terabyte of storage capacity. They possess a significantly smaller embodied carbon footprint and provide manufacturing scale that is highly capital efficient.

Wrapping up, Seagate is in position to deliver further improvements in revenue and profitability in fiscal 2025. Looking out further, it's an attractive setup for Seagate, with our steadfast focus on supply discipline in a favorable demand environment, a leading technology road map and the tailwind of AI's massive data storage requirements.

I'll turn it over to Gianluca now.

Gianluca Romano

Chief Financial Officer & Executive Vice President, Seagate Technology Holdings Plc

Thank you, Dave. Seagate's strong December quarter results were highlighted by 50% growth in revenue and a fourfold increase in non-GAAP operating income on a year-over-year basis. We delivered December quarter revenue of $2.33 billion, up 7% sequentially. We increased non-GAAP operating income 22% sequentially to $538 million, translating to non-GAAP operating margin of 23.1% of revenue. And our non-GAAP EPS was $2.03, at the high end of our guidance range, reflecting strong adoption of our high capacity nearline drives, along with ongoing price adjustments and cost discipline.

Within our hard disk drive business, revenue increased 8% to $2.2 billion, with volume shipments of 151 exabytes, up from 138 exabytes in the September quarter. Mass capacity revenue grew for the sixth consecutive quarter, reflecting continued strength in nearline cloud demand, along with anticipated improvement in the enterprise and OEM markets and seasonal uplift from VIA customers. Mass capacity revenue and exabyte shipments both increased 9% sequentially and totaled $1.9 billion and 140 exabyte, respectively.

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Starting this quarter, we are including nearline exabyte shipped to VIA customers within our overall nearline exabyte reporting. Many VIA customers are adopting nearline drives, consistent with the shift towards more cloud-like solution that we highlighted last quarter.

Consequently, we believe this reporting change more accurately reflect our customers are utilizing these drives, and aligns with industry reporting standards. With this change to all periods presented, Seagate's total nearline shipments were 126 exabytes in the December quarter, up from 114 exabytes in the prior period.

Our performance reflects strong demand for our 24 terabyte and 28 terabyte PMR products, particularly among cloud customers, as well as continued improvement in enterprise, marked by record high average drive capacity for the second consecutive quarter, extending the trend for a higher storage content per server unit. Sales of our legacy products totaled $275 million, up 2% sequentially, supported by higher seasonal demand in the consumer market. Finally, for our other business, which include systems, SSD and refurbished drives, revenue was $156 million, down slightly from last quarter, as lower SSD revenue was partially offset by improved system demand.

Moving on to the rest of the income statement. Non-GAAP gross profit increased 14% sequentially in the December quarter to $825 million. This increase reflects continued revenue growth of mass capacity products, increasing mix of new high capacity drives, ongoing price adjustment, and cost efficiencies.

Our resulting non-GAAP gross margin expanded by 220 basis points to 35.5% at the company level, marking our seventh consecutive quarter of sequential gross margin improvement. Non-GAAP gross margin for the HDD business remained significantly higher than the corporate average.

Non-GAAP operating expenses totaled $287 million, consistent with our plans and up 2% quarter-over-quarter. Other income and expense was stable at $86 million and are expected to be relatively flat in the March quarter. Adjusted EBITDA increased 19% sequentially in the December quarter to $591 million. Non-GAAP net income increased to $433 million, resulting in non-GAAP EPS of $2.03 per share based on a diluted share count of approximately 213 million shares.

Moving on to cash flow and the balance sheet. We continue to focus on driving free cash flow generation, which increased to $150 million in the December quarter, compared with $27 million in the prior period. We continue to expect free cash flow generation to improve sequentially through the rest of the fiscal year. Capital expenditures for the quarter were $71 million.

For fiscal 2025, we will maintain capital discipline and continue to expect CapEx to be at the low end of the long-term target range of 4% to 6% of revenue. We returned $148 million to shareholders through the quarterly dividend and closed the December quarter with $2.7 billion in available liquidity, including our undrawn revolving credit facility. Inventory increased slightly to $1.5 billion primarily to support the ramp of new high-capacity products.

Our debt balance was $5.7 billion at the end of December quarter. Consistent with our intent to reduce debt we retired approximately $479 million of notes as they matured in early January. As a result, we have no debt obligation until late fiscal 2027. We exited the December quarter with a net leverage ratio of 2.5 times and expect to see further reduction in the coming quarters.

Turning now to our March quarter outlook. We expect ongoing demand strength from cloud customers to partially offset seasonal decline in the VIA and legacy markets, along with the supply constraints that we have already

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discussed. We still expect to meet our build-to-order commitments, but our ability to respond to in-quarter volume upside opportunities will be limited.

Consequently, embedded in our guidance is approximately $200 million of revenue impact from these supply constraints. With that as context, March quarter revenue is expected to be in the range of $2.1 billion plus or minus $150 million. At the mid-point this reflects more than 25% year-over-year improvement.

Despite supply limitation in the March quarter, ongoing demand for our latest generation nearline products, including Mozaic, offers the potential for sequential improvement in gross margin performance. We expect non-GAAP operating expenses to be in the range of $290 million. And at the midpoint of our revenue guidance, we expect non-GAAP operating margin to remain in the low-20 percentage range. We expect non-GAAP EPS to be $1.70, plus or minus $0.20 based on a diluted share count of approximately 214 million shares and non-GAAP tax expense of roughly $20 million.

In summary, Seagate's strong December quarter financial performance underscores our continued focus on enhancing profitability, optimizing cash generation and driving growth. As we focus on capturing the significant opportunities ahead, we will remain diligent in supporting a healthy supply and demand environment, which we believe positions Seagate to deliver further improvement in revenue and enhanced profitability this fiscal year and beyond.

I will now turn the call back to Dave for final comments.

William David Mosley

Chief Executive Officer & Director, Seagate Technology Holdings Plc

Thanks, Gianluca. As data value continues to increase, so too does the strategic relevance of mass capacity storage, particularly in the era of AI. Against this backdrop, Seagate is executing a strong product and technology road map to deliver a compelling value proposition for our customers. In short, we are responding with technology to store the world's data.

We've crossed an exciting inflection point with our Mozaic HAMR platform now ramping volume to address customer demand at exabyte scale. The Mozaic platform provides a capital-efficient solution for Seagate to sustain areal density leadership and effectively address the growing demand for mass storage. This paves the way for Seagate to offer significant economic advantages both to our customers and the company.

These achievements are only possible through the hard work of Seagate's global team. I extend my thanks to them, as well as recognize our suppliers, customers and shareholders for their ongoing support.

Operator, let's now open up the call for questions.

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QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] Our first question is from Erik Woodring with Morgan Stanley. Please go ahead.

Erik W. Woodring
Analyst, Morgan Stanley & Co. LLC

Q

Hi guys. Thanks so much for taking my question. Maybe to Dave, maybe just to start, if I look to past June quarters, I know we're getting ahead of ourselves here, but we've seen sequential growth historically. And in light of your positive demand comments and the fact that March quarter supply issues would be transitory, how do you think about that incremental $200 million of shortfall in the March quarter? What exactly happens there? Does it get pushed to June? Does it get pushed to multiple quarters in the future? Can you just help us understand kind of magnitude and timing of when you expect to claw that back? Thanks so much.

William David Mosley
Chief Executive Officer & Director, Seagate Technology Holdings Plc

A

Yes. Thanks, Erik. As know, we've tried really hard to get predictable in the last couple of years, especially with the downturn. And so as we come out of it, we've really valued that predictability. This temporary issue that we're dealing with limited to this quarter only, I think as we look out further and further, especially through some of the product transitions that are coming, we have confidence in the predictability. And so I think the exabytes are going continue to grow, demand is going to continue to grow. We're confident in that, and we'll get through those product transitions as well, which allows us to grow our margin profile as well. So I do think this is a very temporary issue.

Operator: The next question is from Wamsi Mohan with Bank of America. Please go ahead.

Wamsi Mohan
Analyst, BofA Securities, Inc.

Q

Yes, thank you. I just wanted to clarify the comment about the transitory nature of this $200 million. So if it is transitory, should we think that the true baseline for March was $2.3 billion, and then June should be sequentially up from that? That's just a clarification, if you could clarify that.

And my main question is really around the fact that you've seen six quarters of really strong nearline and mass capacity exabyte shipment increases. Historically, these have been one-and-a-half to two-year cycles and then there's a period of a pause. Can you perhaps maybe Dave share your view on where we are in the cycle and anything that you see that could cause the cycle to turn in 2025? Thank you so much.

William David Mosley
Chief Executive Officer & Director, Seagate Technology Holdings Plc

A

Yeah, Wamsi, I think we're still pretty early in calling this a cycle because the overbuild at the start of the pandemic was probably substantial. And then the last two years, the exabyte shipments has been really low. So it's a very profound cycle compared to those previous ones that we had seen before.

That said, these build-to-order discipline that we have is giving us good predictability and people continue to ask for – with that predictability, more certainty of the build-outs that they're doing, the data centers that they built

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need population, the refreshes that they're doing of old gear. The wholesale replace entire data centers to uplift their capacity. I think the whole industry and supply chain is getting more predictable and quite happy about that.

So that gives us confidence through this calendar year. Relative to kind of like Erik's question, same one you asked relative to this issue that we have this quarter, it's really hard tell in that predictable behavior that we're doing for say, a year in a build-to-order or visibility that's even going beyond a year, whether or not this quarter effect is a pull-in, or is a push-out. That's really hard. But I'm confident in the financial expectations that we have, and I'm also confident in these product transitions that we have that; that, that's building value for our customers, and we're going to be able to execute them. So that's how I think about it. Gianluca, do you want to add something?

Gianluca Romano
Chief Financial Officer & Executive Vice President, Seagate Technology Holdings Plc

A

Yeah. Related to the part of the question on the impact to the March quarter, the short answer is yes, we could have been higher. Demand is there. Unfortunately, for the short term, we don't have the volume to satisfy the demand. So we could have, of course, achieve a higher level of revenue. But as they said, we see further improvement to the calendar year. So it is not going to impact our overall results.

Wamsi Mohan
Analyst, BofA Securities, Inc.

Q

Thank you so much.

Operator: The next question is from Krish Sankar with TD Cowen. Please go ahead.

Krish Sankar
Analyst, TD Cowen

Q

Yeah. Thanks for taking my question. Gianluca, when I look at your guidance, it seems like your March quarter gross margin is about 36%, give or take. And you said HAMR is obviously going to be accretive to numbers. And both you and Dave seem pretty optimistic on nearline for the rest of the year. So is it fair to view as the nearline grows, the gross margin should improve quarter-over-quarter through the rest of calendar 2025 off of the 36% baseline in March? Thank you.

Gianluca Romano
Chief Financial Officer & Executive Vice President, Seagate Technology Holdings Plc

A

Yeah, we see good opportunity to continue the trend that started like six quarters ago. To improve our gross margin sequentially, part is mix, of course, now moving more and more into the high capacity drives, give us opportunity to improve gross margin. And of course, there is always our strategy in terms of stable, consistent price increase quarter after quarter. Cost efficiency, HAMR will help us, especially in the second part of the calendar year when we can ramp much higher volume. So, right now, we are very confident that our profitability will continue to improve.

Krish Sankar
Analyst, TD Cowen

Q

Thank you.

Operator: The next question is from Amit Daryanani with Evercore. Please go ahead.

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Amit Daryanani
Analyst, Evercore ISI

Q

Thanks for taking my question. I guess, Dave, I was hoping you just talk a little bit about – there's always this fear when you hear about HDD companies adding capacity. What does that really mean for the industry? So can you just talk about, are you really adding net new capacity trying to get back to some baseline level? And what do you think sort of Seagate's total exabyte capacity could be once these additions are done, maybe just touch on that part?

And then maybe along that theme, I'm somewhat surprised that your gross margins are expected to go up in March despite revenues coming down and despite the capacity addition. So just talk about what's going well or what's offsetting what I think are headwinds sequentially in March quarter that's enabling gross margins to expand? Thank you.

William David Mosley
Chief Executive Officer & Director, Seagate Technology Holdings Plc

A

Thanks, Amit. Yeah. If it helps, if you think back three quarters or four quarters ago, when things were – when demand was a lot lower, we were on older product generations and we had buffers of those product generations, because demand's picked up, those have blown through largely.

And then we had this production issue on some of the new product generations. But it's really, the answer to your question is all about mix. So as we mix to higher and higher capacity points, we believe that that's a compelling value proposition for our customers. We also believe that we're giving predictable economics for them and for ourselves as well, and that's what's building the margin structure in.

Operator: The next question is from Timothy Arcuri with UBS. Please go ahead.

Timothy Arcuri
Analyst, UBS Securities LLC

Q

Hi, thanks. I just wanted to ask about this $200 million and the effect into June again because I'm not sure I understand what the message is. I think, Dave, in the remarks, you said that the impact will be completely limited to the March quarter. So, it sounds like you think that June, you get the entire $200 million back, but you seem like you're not really willing to clarify that. So can you clarify exactly what you meant by the entirety of the impact is being felt in March?

William David Mosley
Chief Executive Officer & Director, Seagate Technology Holdings Plc

A

Yeah. Remember, this is – thanks, Tim. This is a supply issue, not a demand issue. So, from our perspective, we're communicating this and after the conference in December there, we started communicating to the customers exactly what's going on. We can maintain all the build-to-order commitments that we have this quarter. Next quarter is next quarter. We're recovering from the issue as quickly as we can. But again, it's not a demand compression. It's only our ability to hit the supply. Gianluca, do you want to add something?

Gianluca Romano
Chief Financial Officer & Executive Vice President, Seagate Technology Holdings Plc

A

Absolutely, Tim. Basically, as we explained in December, we did not start enough material in a certain period of time because we didn't put back the equipment that were necessary to produce that material. So we don't have

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that level of supply that could have been necessary to match demand in the March quarter. So that $200 million is not coming back. It's that material we were not able to start. And so we missed that opportunity in the March quarter, and then we go back to June with the right level of supply that will match the June demand. But of course, the one that is in March has probably gone away.

William David Mosley
Chief Executive Officer & Director, Seagate Technology Holdings Plc
A

And as we discussed in December, this is yet another reason you see the long lead times that we have in some of these wafer equipment, which is why we need the build-to-order predictability for our customers and for ourselves. This problem started manifesting itself late summer and that we realized that we had it in late November. And it's still flowing through the system.

We're going to try our best to recover as much as we can, but we know that – and so I guess, the backdrop of a very steep ramp. So it's not like a hole that goes away. It's a ramp that we're on that's very steep. There is an impact this quarter as these parts don't flow through that we wanted to at the level, and then we fixed the problem now. So we're convinced that we can get back and satisfy demand next quarter and beyond.

Operator: The next question is from Asiya Merchant with Citi. Please go ahead.

Asiya Merchant
Analyst, Citigroup Global Markets Canada, Inc.
Q

Great. Thank you for taking my question. You sound very confident about a lot more upside to gross margin, especially as HAMR ramps here and you're shifting your mix to even these higher capacity drives. Maybe if you can shed some light on what do you think about the appropriate margin for Seagate as you go forward, given you're executing well above your target range at this point? Thank you.

William David Mosley
Chief Executive Officer & Director, Seagate Technology Holdings Plc
A

Yeah. I think that depends largely on the demand picture. We think the demand picture is strengthening, and we think we have a good portfolio against it. People will buy the new drives higher and higher capacities because they're going to run these in data centers for a long time, and they see a great value proposition for those.

And to the extent that we can be more predictable with these build-to-order negotiations, and we know what we're building anyway, so we can go out and have those negotiations and say, we'll build it for you if we all agree to this. And so I think that's served the industry really well, served our supply base really well, helping us recover from the situation that we were in a year or two ago.

Gianluca Romano
Chief Financial Officer & Executive Vice President, Seagate Technology Holdings Plc
A

Yeah. And that target range that you are referring to, we gave the target, and we clearly said this is not including HAMR. So of course, in future, we were already expecting a higher profitability, and we will ramp HAMR in not just two or three quarters from now. We will discuss maybe more at our Analyst Day in the future what will be our next model. But I would say, I would not focus on that old gross margin range that we were discussing in the past.

William David Mosley
Chief Executive Officer & Director, Seagate Technology Holdings Plc
A

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One other thing that I'd say about margins, gross margins and operating margins is that even at the revenue levels that we're at right now, we have to continue to fund the R&D in order to keep driving the road map for 4 terabytes, 5 terabytes that we have to fund CapEx, so on and so forth. And from my perspective, those things provide such a compelling value proposition to our end customers, they want us to as well. So we're going to need the right combination of margin and revenue to be able to continue to drive the road map for the end user value propositions.

I think everyone's kind of understood that as even though these undulations in supply and demand that we went through in the pandemic were so painful, but I think we're starting to come out of it and people understand the financial impact of those a lot more and allows us to be a lot more predictable.

Operator: The next question is from Steven Fox with Fox Advisors. Please go ahead.

Steven B. Fox
Analyst, Fox Advisors LLC

Q

Hey, good afternoon, everyone. Dave, I was just wondering as we think about the longer-term impact of transitioning to HAMR, you move through the initial ramps of new technology. Does the customer mix or how you ramp become faster, slower, more broad? Like I'm just – you mentioned like going from one cloud guy to having a second and third, but as you go towards 36 terabytes, what changes and how this technology hits the market?

William David Mosley
Chief Executive Officer & Director, Seagate Technology Holdings Plc

A

I'd say our first ramp was tougher than we expected, even right up against it. We had great results out of the labs and the first experiments. And then we ran into some problems in productization. We don't exactly see any of those problems in future productization so it should shorten the cycle.

The strain on all the other subsystems, not just the recording subsystem, but all the other subsystems as we go from 30 terabytes to 40 terabytes to 50 terabytes is still great, but we have confidence, and we've told people that based on what we see right now, we're going to drive as aggressively as we can through all those transitions. And that's why the announcement of shipping drives already up to 36 terabytes – that's already happened, by the way, so from my perspective, onward and upward, that's what this industry gets paid for as areal density. It's how bring value in the world, and that's what we're continuing to drive.

Steven B. Fox
Analyst, Fox Advisors LLC

Q

Great. That's helpful. Thank you.

Operator: The next question is from Thomas O'Malley with Barclays. Please go ahead.

Thomas O'Malley
Analyst, Barclays Capital, Inc.

Q

Hi, guys. Thanks for taking my question. I just want to get a better picture for your mix of business. I think you like to talk in exabytes that are moving towards HAMR. You guys had originally talked about a unit forecast, you've adjusted that over time. But maybe as we look out into the calendar year 2025, you could talk about how much of your business in terms of mix is HAMR today and maybe how much you think exiting the year. Obviously, you had

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enough to impact gross margins in the near term. So maybe if you could size that for us, that would be really helpful.

William David Mosley
Chief Executive Officer & Director, Seagate Technology Holdings Plc

A

Hi. Thanks, Tom. We did talk about the success of the 24 TB, 28 TB platform. So that's growing at a very, very fast ramp, very high volume. There's a lot of common parts with that in HAMR. So we can ramp HAMR quickly as well, and we're focused on doing that, getting through the qualifications and ramping.

Last year, we were pushing through these transitions as hard as we could just to inject some margin back in the business. This year, the demand picture is quite different. And the response of people and where they are in qualifications is very different. So we're going to be a little bit more careful. Remember, HAMR is still accretive to margins, and we still want to drive it, and we still have parts that are coming. But we'll just be a little bit more cautious and make sure we work with the customers on exactly what they need.

I think as we get to higher and higher capacity points is such a good compelling value proposition for our end customers, that they're pulling very hard. So maybe even to some of the earlier questions, I do think that there's going to be an acceleration based on the fact that we are already at the curve, productization-wise that we have all those learnings. So the other person doesn't have to learn those same lessons and there is this compelling value proposition that people know about.

Operator: The next question is from Aaron Rakers with Wells Fargo. Please go ahead.

Aaron Rakers
Analyst, Wells Fargo Securities LLC

Q

Yes. Thanks for taking the question. I'm going to stick with the gross margin narrative here a little bit. Gianluca, if I try and make some adjustments for your non-HDD gross margin, I guess what I'd be left to think about is that your hard disk drive gross margin is probably in the 37% plus or minus range.

I guess the question is that would you say even today as you're initially ramping HAMR that your HAMR gross margin is accretive to the hard disk drive-only gross margin. And is there anything structurally that keeps you from thinking, hey, gross margin could have a 4 in front of it just structurally as we look forward and pricing continues to progress, et cetera, et cetera. Just curious on what your thoughts are.

William David Mosley
Chief Executive Officer & Director, Seagate Technology Holdings Plc

A

Yes, Aaron, thanks. I would say that – and you know our history really well, I'm pretty happy where we are right now. So as we're looking out into the future, we're signing up for business that's good business and higher capacity points through these transitions. So that's what allows me to build confidence.

Is there a theoretical maximum, I think a lot of that depends on the demand picture that ultimately comes? And we'll keep you informed on that as time goes on. But I think we've done a really job getting the margin structure back into the industry or even in some cases, to all-time highs.

The revenue is still not back and the output is still not back, right, frankly. I mean we could do some more output. But we want to do it in a very predictable way and defend what we've had to rebuild. We still have some supply chain issues that we have to take care of as well, and that's going to be going on for the next few quarters. So

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we're kind of in that transitionary period to future model versus continue to just execute as hard as we can to rebuild. And we're quite happy with the progress.

Gianluca Romano
Chief Financial Officer & Executive Vice President, Seagate Technology Holdings Plc
A

And Aaron, part of the confidence we have in improving gross margin even in the March quarter where as you know the revenue is lower, is coming from the increased volume of HAMR. So in general, the mix moving to higher capacity drives has always helped us to improve margins and HAMR will increase a lot the capacity per unit. So it's a good contributor to the improved gross margin.

Aaron Rakers
Analyst, Wells Fargo Securities LLC
Q

Thank you.

William David Mosley
Chief Executive Officer & Director, Seagate Technology Holdings Plc
A

Thanks, Aaron.

Operator: The next question is from Karl Ackerman with BNP Paribas. Please go ahead.

Karl Ackerman
Analyst, BNP Paribas Exane
Q

Yes. Thank you. As we think about the sustainability of the cycle, are your nearline and hyperscale customers giving you more visibility today, which I think was six months or longer last quarter, since you've experienced these production capacity constraints? And for my clarification question, does the production capacity address only HAMR drives? Or were these tools used for conventional nearline drives as well? Thank you.

William David Mosley
Chief Executive Officer & Director, Seagate Technology Holdings Plc
A

Thanks, Karl. Yeah, the second question first, the production capacity issue affected non-HAMR drives, not the HAMR drives. So it was the ramp of the 24 TB, 28 TB think of it this way. We've actually qualified that back and even some old programs, but it's the non-HAMR product being affected.

So, stepping out a little bit more into the future, I think that the HAMR transition is actually – we're going to drive it more and more aggressively just because we get the extra capacity points like Gianluca was talking about. Higher capacity points, and then we can also refresh lower capacity points as well. So that's what helps to build the margin into the entire portfolio, not just the highest capacity point.

Karl Ackerman
Analyst, BNP Paribas Exane
Q

Yes. Thank you. I was hoping you could talk about the visibility you're receiving from hyperscale customers today since those capacity constraints? Thanks.

William David Mosley
Chief Executive Officer & Director, Seagate Technology Holdings Plc
A

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Yeah. So the build-to-order models that we're coming up with have given us good visibility. Maybe as we get through the supply constraint issue that we have this quarter, we said we're protecting all the build-to-order commitments that we have. So on an account by account by account basis, then I think that particular issue is almost irrelevant for them, right? So we're talking about Q4 as Q4, Q3 as Q3. Q1 next year is Q1 next year. So they're helping us with that visibility and this temporary issue is irrelevant in that BTO model.

Karl Ackerman
Analyst, BNP Paribas Exane

Q

Thank you.

Operator: The next question is from Vijay Rakesh with Mizuho. Please go ahead.

Vijay Raghavan Rakesh
Analyst, Mizuho Securities USA LLC

Q

Yeah, hi Dave and Gianluca. Just looking at the HAMR, when you look at your 150 exabyte quarter shipments and the 126 exabyte nearline. Do you expect HAMR to get to like 10% to 20% of that mix by like first half calendar, let's say, 2026?

William David Mosley
Chief Executive Officer & Director, Seagate Technology Holdings Plc

A

Well, we certainly expect to make it – to ramp it really hard. Yes, we're not going to say a specific number. We're in a very different space than we were a year ago, right? But we're not going to say a very specific number. But we expect it to ramp very hard. That the customers are pulling on it hard because of the value proposition that they see. So it has to be accretive as well. We've said that for some quarters now, but we're confident that it is. So yes, we're going to drive it hard and drive the volumes very soon.

Gianluca Romano
Chief Financial Officer & Executive Vice President, Seagate Technology Holdings Plc

A

Hi, Vijay. We will have improvement every quarter. Of course, that will have to follow the qualifications with the different customers. And as we said, we expect multiple qualification between December last year and mid of calendar 2025. So we still expect the majority of the ramp to happen in the second part of calendar 2025, and that would be another improvement for our business and our performance in just few quarters from now.

Vijay Raghavan Rakesh
Analyst, Mizuho Securities USA LLC

Q

Got it. Thanks. And then in terms of capacity, as you ramp HAMR, do you expect you need to add more capacity in the back half? Or how do you see the available capacity and the ramp of HAMR with that? Thanks.

William David Mosley
Chief Executive Officer & Director, Seagate Technology Holdings Plc

A

No. Most of the tools or almost all the tools that we're using for our non-HAMR products are convertible to the HAMR product. So there's really no added tools that we need to bring on. We've planned this transition for quite some time. And we've said in the prepared remarks, we would not add head and media unit capacity.

The capacity adds that we get are by virtue of driving the areal density. So we can go to customers and say, hey, instead of shipping a 24 terabyte drive, I'll ship you a 32 terabyte drive, hopefully, someday we'll ship you a 40

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terabyte drive, and that gives us more exabyte capacity and more relative power, more TCO proposition for them, benefits for their value and more power for us to go increase our margin picture, that plan is working.

Vijay Raghavan Rakesh
Analyst, Mizuho Securities USA LLC

Q

Thank you.

Operator: The next question is from C.J. Muse with Cantor Fitzgerald. Please go ahead.

C. J. Muse
Analyst, Cantor Fitzgerald & Co.

Q

Hi. Good afternoon. Thank you for taking the question. I guess, first question, a clarification. On the $200 million for March, is that completely traded away? Or are you expecting partial part of that business in the June quarter?

And then for my main question, in your prepared remarks, you talked about increasing focus on imagery and video as part of Generative AI. I'm curious if you've done any work in terms of sizing what that might mean. It looks like Meta is really the big driver today, but curious if you've sized it at all and how you think about the incremental demand to your overall business. Thank you.

William David Mosley
Chief Executive Officer & Director, Seagate Technology Holdings Plc

A

Yeah. So the $200 million, I think we answered this a little bit earlier, C.J. So the way I think about it is the build to orders or all those commitments are being made. So if there was this stuff on top of it, does it transact this quarter or next quarter? I mean, we'll get into that.

But as far as the major accounts that are participating in build to order, it's really not an impact. And it's a supply hole, remember, it's not a demand hole. So the demand is still fairly strong. When we talk about video and imaging, we're usually talking about what's going on at the edge, smart cities, smart factories. The data that's actually being created at the edge and finally making it to the cloud. But there are video applications as well that are raging in the cloud.

I mean, the use of video on some of the major media properties and things – the videos themselves are growing in length, in number, the long tail is getting huge as more hour-long documentaries and things. The creation tools with AI are coming that allows people to create video, be more inventive on that. So I think the creative professionals that are out there creating content. So, all those trends are very beneficial for us. And yes, some of the first movers that we saw in this resurgence as demand started coming back were those people who are servicing those models. Video is creating a lot of demand in the cloud, yes.

C. J. Muse
Analyst, Cantor Fitzgerald & Co.

Q

Thank you.

Operator: The next question is from Ananda Baruah with Loop Capital. Please go ahead.

Ananda Baruah
Analyst, Loop Capital Markets LLC

Q

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Yeah. Thanks guys for taking the question. So maybe I'd love to hear maybe from both of you guys. This is just sort of HAMR transition question. So I might have missed this. But, Gianluca, are you communicating that the HAMR margin – I guess at what point are the HAMR margins accretive?

And then, Dave, I guess, for you in that question, I was going to ask like how to think about the pacing of volume of HAMR given the richness of the legacy tech margins right now? And I guess I was thinking you might be more selective with rolling them out given the margins, but you also just made a comment about driving HAMR into the market with some energy. So, I guess just sort of – those are really the questions. I appreciate it. Thanks.

Gianluca Romano
Chief Financial Officer & Executive Vice President, Seagate Technology Holdings Plc
A

Hey, Ananda, yes. No, HAMR is high capacity drive and that is generating a higher level of gross margin than, of course, other drives. As I said before, it will be more visible later during the calendar year when we can ramp more volume. And we would like to have more volume today, but we need to go through a certain number of call before we can really ramp up in a much higher quantity. But as all the high capacity drives, we expect very good profitability from this product and this technology.

William David Mosley
Chief Executive Officer & Director, Seagate Technology Holdings Plc
A

Right. And, Ananda, if this helps and you go back a year ago, when our gross margins were considerately lower, of course, we were saying HAMR is accretive to the gross margin. Now the gross margins are considerably higher on some of the legacy products like you talked about, some of the 24 TB, 28 TB, PMR, SMR platforms. HAMR is still accretive.

And the more we can drive through these transitions that we're talking about, not only do we increase the top line capacity, if you will, which provides such a compelling value proposition that we can actually get paid for it, but also we can start to refresh some of the lower platform drives, lower capacity points with fewer components inside and, therefore, you get margin uplift that way. So we're still driving the HAMR transition, if that helps.

Ananda Baruah
Analyst, Loop Capital Markets LLC
Q

I got it. No, that's great. So you're going to ship as much HAMRs as you can and as quickly as you can, it's going to be accretive of...

William David Mosley
Chief Executive Officer & Director, Seagate Technology Holdings Plc
A

Yes. And we just have to get the qualifications done and then we'll make the right decision based on the specifics of what the customers want at the time.

Ananda Baruah
Analyst, Loop Capital Markets LLC
Q

Thank you. Appreciate it.

Operator: The next question is a follow-up from Wamsi Mohan with Bank of America. Please go ahead.

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Wamsi Mohan
Analyst, BofA Securities, Inc.

Q

Hi, yes. Thanks for taking the follow-up. I guess a quick question on HAMR. The sampling of the 36 terabyte drives that you announced, is that with the same leading CSP that you qualified the earlier HAMR drives? And any color that you could share on HAMR units? Originally, your expectation was shipping 1 million in the first half of last year. Clearly, now with this ramp being much more significantly underway, would you say that it should be orders of magnitude higher than that in the second half of this year. Thank you so much.

William David Mosley
Chief Executive Officer & Director, Seagate Technology Holdings Plc

A

Yes. Thanks, Wamsi. So it's much more broad-based. We're shipping sample units to more than one person, let me say it that way, not to just one. Won't comment specifically on any one customer, of course but – and then relative to the size of the ramp, yes, we've got customers that are latched pretty well right now on the 24 TB, 28 TB product. And we talked about factories being full and the ramp being really high. We will supplant some of that product with HAMR product. We'll do it in a measured way based on when the qualification is complete, what those customers exactly want

Some of them, you always have to keep in mind, they have to get their systems ready. Some of the transitions that they're going through is silicon transition or software capability versus some of their fleet management features. They'll say, I'll do that on the next-generation product. So there's a lot of – it's not as easy as us just ramping HAMR and then shipping more HAMR. We have to go through those qualification cycles. But that's ongoing, and we're going to drive it as hard we can because we think it's so accretive.

Wamsi Mohan
Analyst, BofA Securities, Inc.

Q

Thank you.

William David Mosley
Chief Executive Officer & Director, Seagate Technology Holdings Plc

A

Thanks.

Operator: And the next question is a follow-up from Krish Sankar with TD Cowen. Please go ahead.

Krish Sankar
Analyst, TD Cowen

Q

Yeah, hi. Thanks for taking my follow-up. Gianluca, a quick question of the 126 exabyte nearline you shipped in December, how much went to surveillance? You started to do a comparison because you did 109 in September, but that is on your traditional nearline definition, so I'm just trying to figure out, off the 126 exabyte, how much is surveillance versus traditional nearline?

Gianluca Romano
Chief Financial Officer & Executive Vice President, Seagate Technology Holdings Plc

A

In general, in different quarters about 4 exabytes, 5 exabytes.

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Krish Sankar
Analyst, TD Cowen

Q

All right. Thank you.

Shanye Hudson
Senior Vice President-Investor Relations & Treasury, Seagate Technology Holdings Plc

A

Our supplemental will show the history for the last five quarters so that you have like-for-like over the prior year period.

Krish Sankar
Analyst, TD Cowen

Q

Thanks, Shanye.

Shanye Hudson
Senior Vice President-Investor Relations & Treasury, Seagate Technology Holdings Plc

A

Okay.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to management for any closing remarks.

William David Mosley
Chief Executive Officer & Director, Seagate Technology Holdings Plc

Thanks, everyone. I wish everyone a Happy New Year or a Happy Lunar New Year. Really appreciate all the efforts of our employees and our suppliers and helping the recovery which is still ongoing and looking forward to talking to everyone this quarter or next quarter's call. Take care.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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