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Seagate Technology Holdings Plc (STX)

Q3 2025 Earnings Call

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CORPORATE PARTICIPANTS

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

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

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

OTHER PARTICIPANTS

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

Asiya Merchant
Analyst, Citigroup Global Markets Canada, Inc.

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

Wamsi Mohan
Analyst, BofA Securities, Inc.

Amit Daryanani
Analyst, Evercore ISI Institutional Equities

Jake Wilhelm
Analyst, Wells Fargo Securities LLC

Vijay Raghavan Rakesh
Analyst, Mizuho Securities USA LLC

Timothy Arcuri
Analyst, UBS Securities LLC

Ananda Baruah
Analyst, Loop Capital Markets LLC

Thomas O'Malley
Analyst, Barclays Capital, Inc.

Tristan Gerra
Analyst, Robert W. Baird & Co., Inc.

Mark Miller
Analyst, The Benchmark Co. LLC

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Seagate Technology Fiscal Third Quarter 2025 Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [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 the detailed supplemental information for our March quarter results on the Investors section of our website.

During today's call, we will 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 the 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 as they're subject to risks and uncertainties associated with our business.

To learn more about the risks, uncertainties, and other factors that may affect 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 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 delivered another solid quarter of profitable year-on-year growth and strong execution. Our third quarter results are highlighted by a 31% year-on-year increase in revenue and 81% growth in non-GAAP gross profit dollars. We continue to demonstrate strong financial leverage, expanding gross margin for the eight straight quarter and achieving the third highest operating margin in the company's history. This performance supported non-GAAP EPS performance at the top of our guidance range and increased free cash flow generation.

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These strong levels of performance reflect the combination of a healthy supply-demand environment for mass capacity storage and the proactive steps we've taken over the recent cycle to transform how we operate. Our supply discipline, the visibility we gain through our build-to-order strategy and our execution on strategic pricing actions, all contribute to sustainable and profitable growth over the long term. In addition to strengthening our operating model, these factors further enhance our agility, which is critical to our ability to navigate the fluid business environment.

Based on the latest trade policy announcements, we expect minimal impact to fourth quarter financial performance due to tariffs. We are continuing to monitor the situation and evaluate strategic solutions, including geographically shifting certain of our manufacturing processes and aligning our supply chains to mitigate risks associated with trade policies over the long term should the need arise.

In this dynamic macro landscape, we will continue to focus on managing controllable factors while executing our areal density driven technology road map, which delivers increasing value to our customers. Seagate's HAMR-based Mozaic drives represent the industry's only 3 terabyte per disk products. We are ramping volume to qualified customers and remain on track to qualify a broader range of cloud customers, with shipments beginning in the second half of calendar 2025.

Turning to the demand environment, we are mindful that tariff measures could affect customer buying decisions. However, current demand indicators remain intact, particularly among global cloud customers. In the March quarter, cloud nearline revenue and exabytes were up by nearly 10% sequentially, almost doubling year-over-year amid a very tight supply environment. The growing demand for mass capacity storage aligns with the cloud CapEx investment cycle and ongoing build-out of data center infrastructure to support AI transformations.

Hard drives continue to store close to 90% of the bits in large-scale data center deployments. Data center architects are highly sophisticated and have consistently employed a strategic mix of storage solutions to optimize scalability, cost efficiency, and workload performance.

Reinforcing this approach, Google recently unveiled details about their foundational Colossus storage system, highlighting the use of SSDs for fast data access while depending on hard drives for mass storage and data retention needs due to their scalability and cost benefits. This hybrid storage strategy is particularly vital for AI workloads that require access to massive data sets for training and inference, and subsequently generate valuable data content that users want to retain.

For instance, training in an AI model to generate images requires billions of static pictures, while AI-based video generation demands thousands of hours of footage to accurately capture transitions and variations between frames. At 24 frames per second, each hour of video equates to roughly 80,000 images.

Hard drives has historically benefited from the growth in video content on social media platforms and content delivery networks. Emerging text-to-video applications promise to revolutionize content creation and lower production costs likely to increase storage demand. In this context, hard drives are crucial for storing training data, maintaining model checkpoints, and preserving both inferenced and generated content.

Over the past 18 months, large cloud and hyperscale customers have driven HDD demand growth. However, we have also started to see a pickup from smaller edge data centers and private clouds that seek to preserve their valuable data for privacy or sovereignty purposes. In the year ahead, nearline exabyte demand looks strong

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through calendar 2025, and we now have visibility of demand with several customers into the first half of calendar 2026 as we negotiate new build-to-order agreements.

Seagate is in a strong position to address the favorable demand outlook as we ramp shipments of our high-capacity drives. Our 24 and 28-terabyte PMR platforms continue to ramp aggressively, with exabyte shipments up roughly 60% quarter-over-quarter. Additionally, we are continuing to ramp HAMR-based products with our first hyperscale customer, and we are approaching the conclusion of our second major CSP qualification.

Feedback from other cloud customers has been positive as they progress through their respective qualification time lines. We expect an appreciable increase in HAMR product shipments over the coming quarters as these future qualifications conclude. Based on the time required to fully scale HAMR production, we plan to fulfill build-to-order commitments through a blend of HAMR and PMR products over the next several quarters.

It is becoming increasingly evident to both our customers and the market that HAMR is a groundbreaking technology that will extend TCO advantages for hard drives over other storage media for many years to come. More than a decade in the making, HAMR is pivotal in enabling Seagate to meet the world's exabyte demand growth through technology innovation rather than supply expansion, thereby supporting Seagate's ability to deliver sustained and profitable growth.

I'll stop here and turn the call over to Gianluca.

Gianluca Romano

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

Thank you, Dave. In the March quarter, we delivered strong earnings and free cash flow generation, underscored by solid execution and our focus on profitability. March quarter revenue came in at $2.16 billion, above the midpoint of our guidance and down 7% sequentially, limited by the temporary supply constraints we discussed last quarter. Despite lower revenue levels, we expanded non-GAAP gross margin by 70 basis points sequentially to 36.2%, supported by strong adoption of our high-capacity nearline drives. Non-GAAP operating margin increased to 23.5% of revenue sequentially. Our resulting non-GAAP EPS was $1.90, which is the top-end of our guided range.

Within our hard drive business, continued strength in nearline cloud demand partially offset the anticipated decline across most of the other end markets due to typical seasonality and allocation of our available supply. Hard drive revenue was $2 billion, down 8% sequentially on volume shipments of 144 exabytes, compared with 151 exabytes in the December quarter.

Mass capacity revenue declined sequentially by $145 million to $1.7 billion, which represents a 48% increase year-on-year. Mass capacity shipments of 133 exabytes were down 5% sequentially and up 50% year-on-year. Nearline represented roughly 90% of mass capacity volume in the March quarter, with shipments of 120 exabytes, down 5% sequentially, while up 55% year-on-year.

We continue to experience strong, broad-based demand for our 24 and 28 terabytes PMR products, which remains the highest revenue and exabyte volume product family. The richer mix of these higher capacity drives, along with initial volume ramp of HAMR-based product, drove a sizable uptick in average nearline drive capacity for the quarter.

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Sales of our legacy products totaled $254 million, down 8% sequentially, primarily reflecting expected seasonal trend in the consumer market. Finally, revenue for our other businesses, which include systems, SSD and refurbished drives, was relatively flat at $157 million.

Moving on to the rest of the income statement, non-GAAP gross profit was $781 million, compared with $825 million in the prior quarter and $432 million in the prior-year period. At the company level, non-GAAP gross margin expanded by 70 basis points to 36.2% sequentially and expanded by over 1,000 basis points year-over-year.

We continue to benefit from a favorable mix, including increased adoption of our latest generation products and ongoing pricing adjustments. These factors support non-GAAP gross margin for the hard drive business above the corporate average. Non-GAAP operating expenses totaled $274 million, down 5% quarter-over-quarter. Relative to our plan, we benefit from the timing from R&D-related material expenses and certain one-off items.

For your awareness, the September quarter will have 14 weeks instead of the typical 13-week period. As a result, we expect to incur higher operating expenses for the period. However, revenue patterns tend to be based on calendar quarters and would therefore be largely unaffected by the additional week. We will provide further clarity on our July earnings call.

Other income and expenses decreased 7% sequentially to $80 million due to lower interest expenses from retiring debt, and is expected to remain relatively flat in the June quarter. Adjusted EBITDA was $563 million, compared to $591 million in the prior quarter and $278 million a year ago, doubling year-on-year. Non-GAAP net income was $407 million, resulting in non-GAAP EPS of $1.90 per share, based on a diluted share count of approximately 214 million shares.

We are managing the business for long-term durability, optimizing both profitability and cash generation. In the March quarter, we increased free cash flow generation to $216 million, compared with $150 million in the prior period. Based on our current outlook, we expect free cash flow generation to improve sequentially through the rest of the calendar year. Inventory remained flat at $1.5 billion as we prepare to support future demand growth, including HAMR products.

Capital expenditures were $43 million for the quarter and represent roughly 3% of revenue for fiscal year-to-date as we continue to maintain capital discipline. We returned $152 million to shareholders through the quarterly dividend, and closed the March quarter with ample liquidity of $2.1 billion, including our undrawn amount of $1.3 billion from our new revolving credit facilities.

Our debt balance was $5.1 billion at the end of the March quarter after retiring approximately $536 million of debt during the quarter, consistent with our intent to reduce debt. Our resulting net leverage ratio was 2.1 times, and we expect to see further reduction in the coming quarters.

Turning now to our June quarter outlook. We have continued to see robust demand for our high-capacity nearline products across the global cloud customer base, which, along with incremental improvement in VIA markets, are expected to drive revenue and profits higher in the June quarter. As noted earlier, we currently forecast minimal direct impact from tariff policies and will be monitoring for secondary impacts, including changes in customer demand.

Based on what we know today, we expect June quarter revenue to be in a range of $2.4 billion, plus or minus $150 million. At the midpoint, this reflects 11% improvement sequentially and 27% improvement year-over-year.

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Non-GAAP operating expenses are expected to be approximately $285 million. And at the midpoint of our revenue guidance, we expect non-GAAP operating margin to expand into the mid-20s percentage range. We expect our non-GAAP EPS to be $2.40, plus or minus $0.20, based on a diluted share count of approximately 214 million shares and non-GAAP tax expense of roughly $10 million. As a reminder, starting in fiscal 2026, we estimate a tax rate in the mid-teens as the various jurisdiction in which we operate adopt the Pillar 2 global minimum tax.

To close, we are continuing to demonstrate strong financial discipline and operating leverage that support both profitable growth and greater agility to navigate the dynamic macro environment.

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. I would like to conclude by reiterating three key points that underscore my excitement for Seagate's opportunities over the long term. First, we've transformed our business model and made a cultural shift to prioritize profits and cash generation, with a sustained focus on driving healthy industry supply-demand fundamentals. Second, these changes are taking place amid secular growth tailwinds for mass capacity storage that are underpinned by the ever-increasing rise in data generation and data value. And third, Seagate's winning technology platform and clear road map positions us to capitalize on those tailwinds to deliver sustained profitable growth with agility.

We look forward to sharing more about how this winning combination of technology leadership, profitable growth and healthy industry fundamentals set Seagate up for even greater success at our investor and analyst event taking place on May 22. I'd like to thank our global teams, supply partners, and customers for your ongoing contributions to our success and to our shareholders for your continued support.

Operator, let's 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] The first question comes from Eric Woodring with Morgan Stanley. Please go ahead.

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

Q

Hey, guys. Good afternoon. Thanks for taking the question in. Nice quarter here. I know you guys were capacity constrained in the March quarter. So, can you maybe just help us better understand how and where you got some of the upside in the quarter with that supply shortage? And as I just extend that to the June quarter, how do we think about the risk of pull-forward impacting June quarter revenue?

Or maybe if I asked you differently, if you guided to the June quarter a month ago, would you have still guided to $2.4 billion of revenue at the midpoint? Or has anything changed over the last month as it relates to your ability to your customers' maybe needs to pull forward any demand? Thanks so much.

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

A

Thanks for the question, Eric. Simple answer is, yes, we would have guided the same thing a month ago, and that's largely this predictability that we've built in through the build-to-order process playing through. We were underserving the market last quarter. I think that's probably true not only for Seagate but for other players in the market. We'll be able to assess that more over time. And some of that's due to our operational issues that we had. We discussed this back in November. It really came through last quarter. Those operational issues have been fixed. And so all that's been planned for quite some time that affects the Q4 guide here that's in front of us.

As far as the longer term, the build-to-order continues to serve us quite well, and we're doing it through product transitions as well, which helps the qualification predictability and all other financial aspects of Seagate. So I'm quite pleased with that.

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

Asiya Merchant
Analyst, Citigroup Global Markets Canada, Inc.

Q

Great. Thank you for the question, and great quarter. If I can just – if you can double-click on where we are with HAMR, where you are with your qualifications with your other customers? And how much did HAMR contribute to the March quarter results? And how we should think about the contribution of HAMR to your bits as you progress through calendar 2025? Thank you.

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

A

Thanks, Asiya. Yeah. I'll let Gianluca speak specifically to the numbers. HAMR is growing quite well. I would say, quarter-over-quarter since the last time we spoke, we're still on the exact same plan. So I'm very happy with the qualification progress. And we'll share a little bit more of that in the May 22 Analyst Day. So, I'd say, please attend. Relative to how we are standing right now, we talked about in the prepared remarks, one qualification, a major CSP almost complete and we have another – quite a few in flight as well, so.

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

A

Yeah. Also, now referring back to Erik question about the revenue increase compared to the midpoint of our guidance, I would say that is actually coming from more volume on HAMR products. So, where we were able to squeeze a little bit more supply during the quarter was mainly on the HAMR part. And HAMR is ramping very well and very rapidly, and we will disclose more about HAMR future development in a few weeks from now at the Analyst Day.

Asiya Merchant
Analyst, Citigroup Global Markets Canada, Inc.

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

Yeah. Good afternoon. Thank you for taking the question. I guess, Dave, on the call today, you've discussed the industry under-shipping end demand. You're seeing new demand from nearline cloud and others. So, the question is, how has your visibility improved? What kind of sense of urgency are you getting from your customers? And I guess, is that extending beyond kind of a 52-week lead time? And last part of the third-part question would be, how do you see that kind of playing out in pricing over time? Thanks so much.

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

A

Thanks, C.J. I think there's two components to your question. Obviously, the build-to-order as we've discussed about, the remainder of this calendar year and already into next calendar year, we're starting to have visibility. People who are building data centers and refreshing data centers need that predictability of supply, and then we need that as far as running our own shop. So all of that has run fairly predictably. There's occasionally swaps where for some reason, somebody comes down and another person needs more, but I think that's what we mean by healthy supply/demand and agility.

And relative to pricing, as we continue to plow through these product transitions, especially at higher and higher capacity points, we negotiate those new build-to-order agreements with that in mind. We need to continue to get paid more and more for what we do because we're making the requisite investments to make these people more efficient in their own data centers, so there's a win-win there. And we're factoring that into all forward-looking financial discussions.

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. You just reported an increase of 70 bps in gross margins, even when nearline was down quarter-on-quarter in total. In the June quarter, you're guiding a similar gross margin expansion, but nearline, I think, should be up quarter-on-quarter. So why are we not seeing more upside on June quarter for margins? And is the cloud versus enterprise mix changing significantly in the June quarter? Because it feels like it was very tilted cloud in the March quarter, if you can square those. Thank you.

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

A

Yeah. Thank you, Wamsi. I'm happy you have strong expectations. I think we are doing a very good job in driving our profitability up every quarter since like eight quarters, as Dave said in the prepared remarks. Mix is important to us. So, of course, nearline and cloud, in particular, will be higher in the June quarter. And we have now build-to-order. We have contracts. And depending from the time of the negotiation of those contracts, we have price increase in certain quarters that are maybe higher than other quarters. But I would say the important is the trend is continuing, the strategy is strong, and we will continue to deliver.

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

A

I think the other thing, Wamsi, is that we also underserved the market quite a bit in Q3. And now we're back to serving customers the way we want to. So all this is long-term planning, but we prioritized in particular the certain segments that Q3 needed where we actually had product for them.

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

Q

Hey, guys. This is [ph] Eddie (00:26:58) for Krish. Thanks for taking my question. Your guidance includes minimal impact from the tariffs in place, and that makes sense due to the 90-day exemption. But I wonder if these tariffs were to take place in the September quarter, how should we think about the impact on the financial model? Like, is there a time lag where you guys might take the tariff hit initially and it's a matter of quarter or two until you raise prices, or you expect to pass through tariff-related costs right away? Like, I just wondered like if you can share any color on how your conversation is going with customers about pricing. How long it would take you guys to pass through tariff-related costs would be helpful? Thank you.

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

A

Yeah. Thanks, [ph] Eddie (00:27:41). It's a complex world. Like you said, there's many scenarios being run. And our first response is to go work the supply chain or operational details, such as the rules are with our customers. And that will impact their demand, what they want, where and when. Ultimately, as we drive through these product transitions, as we talked about before, we're going to be adding more value. So we have a chance to reset the negotiation. Passing through the cost is a last resort option, but we'll factor that in any cost increases due to whatever reasons into the go-forward model.

I think everyone understands that we need those margins, as I referenced before, to go reinvest in our business and keep driving forward the technology, which is a great value to the customer. So I won't get into specifics about what the different scenarios are because we just don't know yet. But operationally, we've dealt with these kinds of problems before and we'll deal with them again. I think we're very agile, nimble operationally to do that.

Q

Thank you, Dave.

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

Amit Daryanani
Analyst, Evercore ISI Institutional Equities

Q

Thanks a lot for taking my question and congrats on a nice set of numbers here. Dave, as we look at the predictability in the business, and you sort of talked about you see nearline exabyte demand, I think, looking strong, not just through the end of this year but also into early 2026. Does that imply that you expect to see sequential revenue growth, gross margin expansion in the back half versus what you folks are guiding to June? I'd love to just understand how much visibility you have into the back half.

And then maybe somewhat related to that, Meta had a white paper out, I think, in the last 90 days, which got a lot of attention in terms of how QLC could be used almost as a new storage medium between traditional flash and nearline. I would love to get your perspective on that and if you see that having any sort of dampening effect on the nearline drives over the long term. Thank you.

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

A

Sure. Sure, Amit. I'll let Gianluca take the gross margin, and then I'll take the flash discussion.

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

A

Yes, Amit. Our plan has not changed. As we were discussing also in prior quarters, we see opportunity to grow revenue, profitability. Of course, this is our current expectation. We need to wait and see if there are any new rules that could impact this view. But currently, we have no reason to change our expectations.

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

A

And on the discussion about the meta blog, I've read it. My first reaction was it's a fairly niche application, and it makes sense. I mean, there's a lot of different types of applications in the cloud, some of which may benefit from QLC NAND, especially if they're very read intensive. But I don't think that it comes anywhere close to disrupting the general blend of NAND and HDD in the cloud, in the larger cloud.

Again, NAND is a very critical technology for everyone. And the data center architects know how to manage it. We pointed to a Google white paper as well in the prepared remarks and there are others out there. I think a lot of our customers are some of the best storage architects in the world, and they're making these decisions very consciously, spreading the workload, if you will, to maximize cost, power, performance, so on and so forth.

And so from a hard drive perspective, we still believe there's a very substantial cost differential between any kind of NAND and hard drives, especially in the performance tiers that we have to operate in. And hard drives are much, much more capital efficient. We can add exabytes to the world in a much more capital-efficient way.

What I'm kind of excited about on this front is there's a bigger move to disaggregated storage, which will decouple compute from storage investments. And if that's the case, I think for some cloud service providers and even some on-prem instances, there's more opportunities for HDDs rather than less.

Amit Daryanani
Analyst, Evercore ISI Institutional Equities

Q

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Perfect. Thanks a lot.

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

Jake Wilhelm
Analyst, Wells Fargo Securities LLC

Q

Hi. This is Jake on for Aaron. Thanks for taking the question and congrats on the results. I was wondering if you could give some color on how material you see emerging AI inference storage to your mid- to long-term TAM? And how, if at all, hyperscale purchasing patterns have changed over the last few quarters or two to support the ongoing shift from training to inference driven by some of these newer reasoning models?

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

A

Thanks, Jake. What we would have said three or four quarters ago was that the first recovery, if you will, of the cloud was largely based on video applications, which a lot of people might call that AI models themselves. I think you have to be a little bit careful with this to the extent that large language models are opening up data analytics to much larger data sets. I think we're still in the early days of that.

And then relative to new video applications, I think that's still in our future. So, quite excited about it. There's a lot of – and we've made some prepared remarks on this. There's a lot of new video applications coming that we believe that storage will really benefit from. And then there are bigger and bigger training sets, if you will. And some of those training sets, as they're adjusted, they have to spin off more data that has to be stored so that you can go back and prove that they did it right. That data infrastructure that's going to come behind AI is very exciting to us.

Jake Wilhelm
Analyst, Wells Fargo Securities LLC

Q

Great. Thanks. And then I was wondering if you could just give a little additional color on your capital allocation priorities moving into the back half of the year and how that's changed, if at all, given the increased tariff uncertainties. Thanks.

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

A

No changes, but I'll let Gianluca answer specifics.

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

A

Yes, we are still working on reducing our debt. As you know, we have done a big step forward. In the March quarter, we reduced more than $500 million of our debt, but we are still not at the level that we want. So in the next few quarters, we will continue to address the debt level. And as we said, after that, we will start working on the share buyback. And of course, we are always focusing on our dividends.

Jake Wilhelm
Analyst, Wells Fargo Securities LLC

Q

Great. Thank you so much.

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

Thanks, Jake.

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

Vijay Raghavan Rakesh
Analyst, Mizuho Securities USA LLC
Q

Yeah. Hi. Thanks. Good quarter. Dave, just a quick question on the HAMR side. Just wondering how – what the mix of HAMR would be by, let's say, exiting fiscal 2026? And then Gianluca, are you still comfortable with the road map to the mid-40% – 40-plus, mid-40% gross margin as you look out? Thanks.

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

Yeah. We haven't guided exactly how fast our HAMR transition is going to be, although as these qualifications complete, as we referenced earlier, we're going to continue to accelerate. So I'm happy with the progress that the team has made right now. And I think as we look forward, there will be more and more HAMR drives in the world very, very soon. So I'm excited about that.

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

Yeah. For the gross margin, as I said before, we continue to improve every quarter. So this is our objective. We are – I think you need to wait a few more weeks to have a better idea of the model for the future. But the important is, we have a strong demand. We have a very good mix, and this is, of course, helping in improving the profitability. Gross margin and operating margin, I would like to bring your attention on the very strong operating margin that we are generating at this point.

Vijay Raghavan Rakesh
Analyst, Mizuho Securities USA LLC
Q

Yeah. Thank you.

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

Timothy Arcuri
Analyst, UBS Securities LLC
Q

Thanks a lot. I had a multi-part question. So you're guiding revenue up $250 million. How much of that's related to the $200 million that you lost in March? I know it's probably a little hard to tell. But I guess the question is like, have you caught up with demand yet? That's the first part.

And then the back part is, I would think that customers are probably placing double orders, but how could you tell if they were? Are there enforceable pieces that come with the orders? I know you're talking about visibility now into next year. How do you know how much of that is real? Are there penalties that are associated with these? Thanks.

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

Yeah. Thanks, Tim. So the build-to-order model, especially when we realized that we had these supply constraints now more than three months ago, we are communicating that specifically to the customers. This is long before any of the current macro issues have arisen. From my perspective, Q4 is happening to plan and Q1 will happen to plan after that as well. That's how these build-to-order models are giving us that predictability.

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

Yeah. I would say it's difficult to say how much of that $200 million demand that we were not able to serve in March is now the demand in June. Of course, that demand has shifted to the future and it's probably now part in June. And as I said before, we expect revenue to grow even in the following quarter. So it's just a situation where demand is above supply.

I have no – I don't think we have any evidence of double orders. So I don't share that comment from you, but I will just say demand is continuing to go in the direction that we had even before, even a quarter ago or two quarters ago. The build-to-orders are not changing in the next few quarters. And as Dave said, now we are starting negotiating even calendar 2026.

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

I think the other thing is that the data center infrastructure, the investments that need to be made are not these temporal things anymore, and there's not a lot of excess supply, as we just said, to pull forward or to do deals at the end of quarters anyway. So as these new applications come online, we're not seeing any inventory buildup, we're seeing people demand – the demand be fairly stable. This is the point of the build-to-order. So, happy that some of the new applications are starting to latch more and more data. And I think this is – it's been a fairly predictable world for us other than the supply issue that we had.

Timothy Arcuri
Analyst, UBS Securities LLC
Q

Okay. Thank you.

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

Ananda Baruah
Analyst, Loop Capital Markets LLC
Q

Yeah. Thanks, guys. I appreciate you guys taking the question. Dave, just on sort of new data center creation, I guess the question is for Gen AI data centers, like what's a decent way – is there a decent way to think about sort of typical storage consumption into a Gen AI data center relative to like a classic cloud data center. I guess, any context there would be useful.

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

It's really hard, Ananda. I think there are many different kinds of applications, and we're all looking for which are the killer apps and what order do they take off. And from our perspective, some of the early applications around large language models are very compute-intensive and opening up bigger and bigger data sets to be ingested

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and analyzed, maybe data sets that are old, things from the past, makes data more valuable. As I said before, still early days of that. And then if you get into the types of Gen AI that actually create new data, video applications and things like that, very exciting for storage, long-term storage as well. So – but it's still very early days.

Ananda Baruah
Analyst, Loop Capital Markets LLC

Q

And I guess just a follow-on there. Is there – and this may be getting sort of like too in the weeds, but do you guys have any sense on if you're starting to see more storage arrays – well, sort of more nearline drives that they use for their own storage arrays be placed into what's been existing data centers? Any context there?

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

A

Yeah. What I would say is that – and I referenced this already, this concept of disaggregated storage is much more interesting. So that compute and storage is decoupled to some extent. And then if you need to scale storage, you can without the overhead and costs associated with adding more compute to that. So the compute can scale one way and the storage can scale the other. That, to me, is a more interesting trend. As applications develop the need to ingest and spin off more and more storage, then that storage investment will be relatively more efficient. So I'm really interested in those architectural changes.

Ananda Baruah
Analyst, Loop Capital Markets LLC

Q

That's great. I appreciate it. Thanks, guys.

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

Thomas O'Malley
Analyst, Barclays Capital, Inc.

Q

Hey, guys. Thanks for taking my question. June 14-week quarter, you're saying OpEx is impacted, but no real change on the revenue side. You guys are kind of talking about a continued growth profile into the back half of the year, talking about good visibility. Should we be thinking about September with any kind of headwind from that 14 weeks? Or does the same rule apply to the back half of the year with just revenue unaffected? Do we need to be kind of discounting that September quarter after the stronger June?

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

A

In general, when you have this extra week in the quarter, it was only impacting your OpEx. It's not really impacting your revenues. Revenues are generally negotiated based on a quarter, not based on a week.

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

A

And Tom, I think I heard you say June quarter. That'll be the September quarter.

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

A

Yeah. September is 14 weeks.

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Thomas O'Malley
Analyst, Barclays Capital, Inc.

Q

Excuse me [indiscernible] (00:42:32). Yeah. Thank you. Yeah. And then the second is just if you look at the exabyte shipments, like rewind the clock, you're kind of getting back to where you were kind of pre-pandemic from a total exabyte shipments. I think you guys have talked about like 160 exabytes is kind of the range where you need technology transitions to move ahead of that.

So I guess part one is, when do you guys think – do you think that this is in the next fiscal year that you're going to kind of hit that wall because it sounds like you're accelerating very quickly? And then secondarily, like on the pricing side, I know you talked about direct impact to tariffs. But indirect impacts, oftentimes, the conversation comes up, will your large customers be more aggressive with pricing. Do you feel like you're going to – have you seen any behavior change with your customers? Are you safeguarding against that with this view that you have the year kind of fully baked already? Thank you. I know that was a bunch there.

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

A

Yeah. No worries. So recall our strategy, we're adding exabyte capacity through areal density technology, which makes our ability to serve the market more and more efficient. As we do that, we can grow revenue and profit and deliver better value to customers as well. So I wouldn't think about 160 or 165 exabytes as being the peak ever. The drives are much more exabyte efficient than they used to be. And so we're really excited about our ability to deliver more and more exabytes and therefore see that kind of growth.

From the broader perspective, tactically, we have not really seen very much impact from customers changing anything, one way or the other. Nobody is losing their place in line. People are still making the data center infrastructure investments they are because data infrastructure is key to some of the cloud applications or the AI applications that are to come. And so we expect predictability from that, and that's what we need as manufacturers as well is predictability. So that's one of the reasons we've driven these new strategies.

Thomas O'Malley
Analyst, Barclays Capital, Inc.

Q

Thank you.

Operator: The next question is from Tristan Gerra with Baird. Please go ahead.

Tristan Gerra
Analyst, Robert W. Baird & Co., Inc.

Q

Hi. Good afternoon. A quick follow-up on the question you just addressed about adding exabyte capacity. So in an environment where you were in shortfall a quarter ago, do you have to – I'm assuming your utilization rates are pretty much at peak. So are you dedicating more CapEx to ramp capacity? How linear is this of a step function? And are you going to pose on any capacity ramp because of the uncertainty of indirect effect of tariffs?

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

A

Thanks for the question, Tristan. So the issue that we had in supply that really manifested itself last quarter but started in wafer last summer actually, during August, that issue was only on PMR products. And so we have the HAMR technology products. We've already planned the CapEx. So we don't need to add any additional CapEx to

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continue to ramp the HAMR products. I say this all the time, we already have this advanced manufacturing that's some of the most sophisticated manufacturers in the world building these devices atom-by-atom-by-atom. It takes a long, long time. And we're going to continue to invest in that. Some of that investment is in the US as well. So we're going to continue to invest in that, but we need demand predictability. We need to be able to predict the rate of return.

Right now, we're fairly happy with where our capital is versus the demand that we see, and maintaining an eye with healthy supply-demand balance. Should there be more demand, then we can address that when we need to, but we haven't done that just yet.

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

Yeah. So – yeah, we are not planning for more heads or media production, but of course, those heads and media will generate a higher volume of exabytes because of the technology transition. And this is how we want to address the increase in demand.

Tristan Gerra
Analyst, Robert W. Baird & Co., Inc.
Q

Great. Thank you very much.

Operator: The next question is from Mark Miller with The Benchmark Company. Please go ahead.

Mark Miller
Analyst, The Benchmark Co. LLC
Q

Congrats on your quarter. And thanks for the question. I'm just wondering if you have seen any recent or do you expect any significant changes in data center CapEx by your major hyperscale customers? And the second question is, any significant component sourcing out of China?

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

So, Mark, I would say that we have decoupled supply chains long ago. So I think we can control sourcing whatever we need to make sure that we don't run out of parts or there aren't any significant cost impacts. So that's one of the reasons why we said whatever has happened so far has been minimal. But we always watch specific sourcing issues to make sure that we have what we need. I think there are geocentric options for anything that we need from a sourcing perspective.

And relative to predictability of the cloud customers, their demand, we've said before that this has been fairly predictable. Some of it's because the market has been underserved. But we're running the play and there's visibility into more demand in the back half of the year, and even people are starting to book into calendar year 2026 because data center infrastructure is very important in their business models. It's a relatively small percentage of their CapEx, too, is what they spend on storage. So, given how important it is and how data continues to grow, they're making that a priority.

Mark Miller
Analyst, The Benchmark Co. LLC
Q

Thank you

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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 much, Gary. I'd also like to take the opportunity to once again thank our employees and our customers and our suppliers for contributing to our results and our shareholders for your support. We look forward to speaking with you in a few weeks at our analyst event May 22. Thank you.

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