J.P.Morgan

North America Equity Research
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Western Digital

F4Q26 Review: Strong Pricing Anchors Beat As Exabytes Temporarily Lag Amid Product Transitions

Overweight

WDC, WDC US
Price (05 Aug 26):$519.17
Price Target (Dec-27):$715.00

Western Digital delivered a modest beat on earnings relative to consensus for F4Q26 as well as on its F1Q27 guidance, with the upside to consensus revenue driven primarily by pricing, which tracked better than expected at roughly +high-teens % y/y (vs. JPMe of +12% y/y, up from high-single-digits in F3Q26) and ahead of the trends witnessed by key peer Seagate (+11% y/y), along with an implied further acceleration in y/y pricing growth. That said, growth relative to exabyte shipments tracked below the long term guide of 25%+ in F4Q26, as well as for implied guide for F1Q27, driven primarily by the mix of product shipments rather than any concern on long-term demand or manufacturing yields, as (1) management reiterated a durable and compounding-data demand thesis led by AI progressing from training to inference, Agentic AI and Physical AI, layered on top of continued core-cloud/video growth, with ~80% of hyperscale data still residing on HDDs, further supported by customers increasingly seeking to sign LTAs out to calendar 2029, 2030 and 2031, and (2) robust gross margin expansion of >1,300 bps y/y to 54.4% in F4Q26, together with a F1Q guide of 55%–56% (implying a ~80%–81% y/y incremental gross margin), points to healthy manufacturing yields. The lower than expected near-term exabytes is due to mix of product shipments as WD works through several product transitions, including 40TB ePMR drives beginning to ramp in F1Q27 and forecasted to reach ~50% of nearline exabyte shipments by F3Q27, followed by 44TB HAMR ramping in 1H CY27 and 50TB ePMR products ramping in 2H CY27. Overall, we are updating our model to reflect more aggressive pricing trends relative to our prior expectations, offset to some extent by modestly lower exabyte shipments as WD transitions through these near-term mix headwinds, while still forecasting healthy 25%+ EB growth over the long term, together driving our out-year earnings forecast higher by a high-single-digit % relative to prior. We reiterate our Overweight rating, supported by an unprecedented demand and pricing environment, as well as our Dec-27 price target of $715.

- **F4Q26 (Jun-end) Results: Revenue and earnings track modestly ahead of consensus driven by better-than-expected pricing trends.** Revenues tracked to $3,747 mn (vs. JPMe of $3,783 mn, consensus of $3,684 mn and guidance in the range of $3.55-$3.75 bn), up 44% y/y, driven by strong demand across data centers (growth of +23% y/y in Nearline EB shipments) as well as favorable pricing, with revenue per EB accelerating to +18% y/y (vs. +9% y/y in F3Q26). The favorable pricing environment drove gross margins to 54.4% (vs. JPMe of 53.4% and consensus of 51.9%), driving operating margins to 44.2% (vs. JPMe of 43.1% and consensus of 41.4%), further driving EPS of $3.56 (vs. JPMe of $3.60 and consensus of $3.31).
- **F1Q27 (Sep-end) Guide: Pricing supports better than consensus revenues, margins and earnings.** Revenue is guided in the range of $4.0-$4.2 bn, implying 45% y/y growth at the midpoint (vs. JPMe of $4,121 mn and consensus of $4,023 mn). Gross margins are guided to 55%-56% (vs. JPMe of 55.0% and consensus of 53.8%), which implies a continuation of robust 80%+ incremental margins on a y/y basis. Operating expenses are guided to the range of $390-$400 mn (vs. JPMe of $396 mn and consensus of $387 mn), driving an implied operating margin guide of 45.9% at the midpoint (vs. JPMe of

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Key Changes (FYE Jun)

	Prev	Cur	Δ
Adj. EPS - 27E ($)	20.00	21.50	7.5%
Adj. EPS - 28E ($)	31.25	34.55	10.6%

Quarterly Forecasts (FYE Jun)

Adj. EPS ($)

	2026A	2027E	2028E
Q1	1.78	4.10	7.56
Q2	2.13	4.80	8.04
Q3	2.72	5.73	8.88
Q4	3.56	6.87	10.07
FY	10.24	21.50	34.55

Style Exposure

Quant Factors	Current %Rank	Hist %Rank (1=Top) 6M	1Y	3Y	5Y
Value	79	71	32	7	5
Growth	28	9	62	93	83
Momentum	5	3	19	100	11
Quality	3	8	22	49	42
Low Vol	76	65	58	39	67
ESGQ	31	17	3	13	9

Sources for: Style Exposure – J.P. Morgan Global Markets Strategy; all other tables are company data and J.P. Morgan estimates.

See page 6 for analyst certification and important disclosures.

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Price Performance

	YTD	1m	3m	12m
Abs	201.4%	-3.7%	11.6%	584.6%
Rel	188.6%	-6.9%	5.2%	561.9%

Company Data

Shares O/S (mn)	388
52-week range ($)	799.87-73.14
Market cap ($ mn)	201,438.00
Exchange rate	1.00
Free float (%)	99.3%
3M ADV (mn)	8.34
3M ADV ($ mn)	4,666.2
Volatility (90 Day)	90
Index	S&P 500
BBG ANR (Buy | Hold | Sell)	23|5|0

Key Metrics (FYE Jun)

$ in millions	FY26A	FY27E	FY28E	FY29E
Financial Estimates				
Revenue	12,919	19,374	26,897	34,611
Adj. EBIT	4,817	10,097	16,198	22,131
Adj. EBITDA	5,192	10,609	16,909	23,045
Adj. net income	3,892	8,343	13,387	18,211
Adj. EPS	10.24	21.50	34.55	47.00
BBG EPS	9.93	18.95	30.51	-
Cashflow from operations	3,929	7,615	12,835	17,759
FCFF	3,929	7,615	12,835	17,759
Margins and Growth				
Revenue Growth Y/Y (%)	(2.7%)	50.0%	38.8%	28.7%
EBIT margin	37.3%	52.1%	60.2%	63.9%
EBIT Growth Y/Y (%)	56.6%	109.6%	60.4%	36.6%
EBITDA margin	40.2%	54.8%	62.9%	66.6%
EBITDA Growth Y/Y (%)	47.2%	104.3%	59.4%	36.3%
Net margin	30.1%	43.1%	49.8%	52.6%
Adj. EPS growth	56.0%	109.9%	60.7%	36.0%
Ratios				
Adj. tax rate	16.0%	16.9%	17.0%	17.5%
Interest cover	-	-	-	-
Net debt/Equity	NM	NM	NM	NM
Net debt/EBITDA	NM	NM	NM	NM
ROE	54.0%	72.4%	69.2%	56.7%
Valuation				
FCFF yield	2.0%	3.8%	6.4%	8.8%
Dividend yield	-	-	-	-
EV/Revenue	15.6	10.4	7.5	5.8
EV/EBITDA	38.7	18.9	11.9	8.7
Adj. P/E	50.7	24.1	15.0	11.0

Summary Investment Thesis and Valuation

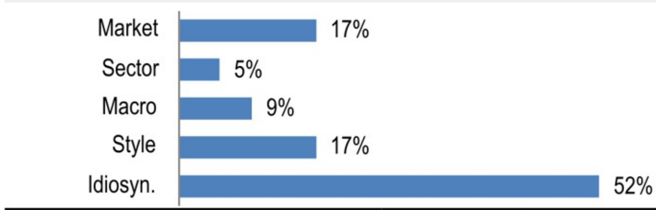
Investment Thesis

We rate Western Digital shares Overweight driven primarily by the opportunity for significant upside to consensus estimates, with the HDD industry positioned to benefit from both strong demand stemming from hyperscaler capex plans as well as pricing tailwinds. WDC is a powerhouse in storage, with its portfolio comprising next-generation HDD solutions that are addressing the growing data storage requirements at data center/cloud/AI infrastructure customers. Near- and medium-term fundamentals continue to improve as the industry is being disciplined in adding new capacity and focusing on profitable growth.

Valuation

Our December 2027 price target of $715 is based on valuing our 2028E EPS estimate at a ~18x P/E multiple, which is largely in-line with the target multiple for the key peer WDC - and is ahead of the historical multiple given robust HDD storage demand across data centers.

Performance Drivers



Factors	6M Corr	1Y Corr
Market: MSCI US	0.49	0.46
Sect: Technology	0.28	0.25
Ind: Tech Hard Equip	0.32	0.11
Macro:		
Non-Energy Commodity	-0.07	-0.18
Economic Surprise	-0.21	-0.17
Crude Oil	-0.20	-0.16
Quant Styles:		
Momentum	0.63	0.52
DivYld	-0.46	-0.41
LowVol	-0.42	-0.35

Source: J.P. Morgan Global Markets Strategy for Performance Drivers; company data, Bloomberg Finance L.P. and J.P. Morgan estimates for all other tables. Note: Price history may not be complete or exact.

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45.4% and consensus of 44.2%), driving EPS guidance of $3.85-$4.15 (vs. JPMe of $4.04 and consensus of $3.83).

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Investment Thesis, Valuation and Risks

Western Digital *(Overweight; Price Target: $715.00)*

Investment Thesis

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WDC P/E-Based Price Target

$ in Millions, except per share amounts

	NTM Qtrs 1-4	2028E
JPM Net Income	**8,343**	**15,683**
JPM EPS	$21.50	$40.48
P/E Multiple	24x	
JPM P/E Multiple		18x
Implied Equity Value	**201,438**	**276,807**
Average Diluted Share Count	388	387
Implied Share Price	**$519**	**$715**
Current Value per Share	$519.17	$519.17
Upside vs. Current		38%
Memo:		
(-) Net Cash/(Debt)	527	19,877
Enterprise Value	200,911	256,930
JPM EBITDA	10,609	19,822
Implied EV/EBITDA	*18.9x*	*13.0x*

Source: Company reports and J.P. Morgan estimates.

Risks to Rating and Price Target

Downside risks to our rating and price target include a slowdown in C on AI infrastructure, which could present risk to demand growth fo industry despite the current robust pipeline of investment announce technology disruptions – including faster-than-expected migration t driven by narrowing cost differentials between HDDs and NANI progress on NAND density – could present headwinds to our expectat

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Western Digital: Summary of Financials

Income Statement - Annual	FY25A	FY26A	FY27E	FY28E	FY29E
Revenue	**13,279**	**12,919**	**19,374**	**26,897**	**34,611**
COGS	(8,169)	(6,570)	(7,685)	(9,052)	(10,747)
Gross profit	**5,110**	**6,349**	**11,689**	**17,846**	**23,864**
SG&A	(618)	(440)	-	-	-
Adj. EBITDA	**3,527**	**5,192**	**10,609**	**16,909**	**23,045**
D&A	(451)	(375)	(512)	(711)	(914)
Adj. EBIT	**3,076**	**4,817**	**10,097**	**16,198**	**22,131**
Net Interest	-	-	-	-	-
Adj. PBT	**2,716**	**4,694**	**10,037**	**16,138**	**22,071**
Tax	(304)	(751)	(1,693)	(2,751)	(3,860)
Minority Interest	-	-	-	-	-
Adj. Net Income	**2,354**	**3,892**	**8,343**	**13,387**	**18,211**
Reported EPS	6.57	10.24	21.50	34.55	47.00
Adj. EPS	**6.57**	**10.24**	**21.50**	**34.55**	**47.00**
DPS	**-**	**-**	**-**	**-**	**-**
Payout ratio	-	-	-	-	-
Shares outstanding	359	380	388	387	387

Income Statement - Quarterly	1Q27E	2Q27E	3Q27E	4Q27E
Revenue	**4,136**	**4,542**	**5,040**	**5,655**
COGS	(1,806)	(1,892)	(1,953)	(2,034)
Gross profit	**2,330**	**2,651**	**3,086**	**3,621**
SG&A	-	-	-	-
Adj. EBITDA	**2,043**	**2,376**	**2,821**	**3,369**
D&A	(109)	(120)	(133)	(149)
Adj. EBIT	**1,934**	**2,256**	**2,688**	**3,219**
Net Interest	-	-	-	-
Adj. PBT	**1,919**	**2,241**	**2,673**	**3,204**
Tax	(326)	(376)	(449)	(542)
Minority Interest	-	-	-	-
Adj. Net Income	**1,593**	**1,864**	**2,224**	**2,663**
Reported EPS	4.10	4.80	5.73	6.87
Adj. EPS	**4.10**	**4.80**	**5.73**	**6.87**
DPS	**-**	**-**	**-**	**-**
Payout ratio	-	-	-	-
Shares outstanding	388	388	388	388

Balance Sheet & CashFlow Statement	FY25A	FY26A	FY27E	FY28E	FY29E
Cash and cash equivalents	2,114	1,579	5,602	14,629	28,358
Accounts receivable	1,486	2,026	3,058	4,077	5,203
Inventories	1,291	1,511	1,797	2,126	2,526
Other current assets	3,742	4,055	5,632	7,281	9,117
Current assets	**5,856**	**5,634**	**11,234**	**21,911**	**37,475**
PP&E	2,343	2,476	2,523	2,587	2,670
LT investments	-	-	-	-	-
Other non current assets	1,484	1,430	1,430	1,430	1,430
Total assets	**14,002**	**13,861**	**19,508**	**30,249**	**45,896**
Short term borrowings	2,226	1,052	1,052	1,052	1,052
Payables	1,266	1,774	2,110	2,496	2,966
Other short term liabilities	1,926	1,414	1,414	1,414	1,414
Current liabilities	**5,418**	**4,240**	**4,576**	**4,962**	**5,432**
Long-term debt	2,485	0	0	0	0
Other long term liabilities	3,044	757	757	757	757
Total liabilities	**8,462**	**4,997**	**5,333**	**5,719**	**6,189**
Shareholders' equity	5,540	8,864	14,175	24,530	39,708
Minority interests	-	-	-	-	-
Total liabilities & equity	**14,002**	**13,861**	**19,508**	**30,249**	**45,896**
Net debt/(cash)	2,597	(527)	(4,550)	(13,577)	(27,306)
Cash flow from operating activities	**1,691**	**3,929**	**7,615**	**12,835**	**17,759**
o/w Depreciation & amortization	451	375	512	711	914
o/w Changes in working capital	(1,031)	(658)	(1,241)	(1,263)	(1,366)
Cash flow from investing activities	**150**	**(429)**	**(558)**	**(775)**	**(998)**
o/w Capital expenditure	-	-	-	-	-
as % of sales	-	-	-	-	-
Cash flow from financing activities	**(1,612)**	**(2,776)**	**(3,033)**	**(3,032)**	**(3,032)**
o/w Dividends paid	(44)	(184)	(233)	(232)	(232)
o/w Net debt issued/(repaid)	57	0	0	0	0
o/w Share Repurchases	(149)	(2,592)	(2,800)	(2,800)	(2,800)
Net change in cash	**235**	**721**	**4,023**	**9,027**	**13,729**
Adj. Free cash flow to firm	**1,691**	**3,929**	**7,615**	**12,835**	**17,759**

Ratio Analysis	FY25A	FY26A	FY27E	FY28E	FY29E
Gross margin	38.5%	49.1%	60.3%	66.3%	68.9%
EBITDA margin	26.6%	40.2%	54.8%	62.9%	66.6%
EBIT margin	23.2%	37.3%	52.1%	60.2%	63.9%
Net profit margin	17.7%	30.1%	43.1%	49.8%	52.6%
ROE	27.9%	54.0%	72.4%	69.2%	56.7%
ROA	12.4%	27.9%	50.0%	53.8%	47.8%
ROCE	18.8%	40.1%	66.8%	65.9%	55.0%
SG&A/Sales	4.7%	3.4%	-	-	-
Net debt/equity	0.5	NM	NM	NM	NM
Net debt/EBITDA	0.7	NM	NM	NM	NM
P/E (x)	79.1	50.7	24.1	15.0	11.0
P/BV (x)	35.0	22.3	14.2	8.2	5.1
EV/EBITDA (x)	57.0	38.7	18.9	11.9	8.7
Dividend Yield	-	-	-	-	-
Sales/Assets (x)	0.7	0.9	1.2	1.1	0.9
Interest cover (x)	-	-	-	-	-
Operating leverage	23593.0%	(2087.7%)	219.4%	155.6%	127.7%
Revenue y/y Growth	2.1%	(2.7%)	50.0%	38.8%	28.7%
EBITDA y/y Growth	226.6%	47.2%	104.3%	59.4%	36.3%
Tax rate	11.2%	16.0%	16.9%	17.0%	17.5%
Adj. Net Income y/y Growth	(2502.0%)	65.3%	114.4%	60.5%	36.0%
EPS y/y Growth	(2331.2%)	56.0%	109.9%	60.7%	36.0%
DPS y/y Growth	-	-	-	-	-

Source: Company reports and J.P. Morgan estimates.
Note: $ in millions (except per-share data).Fiscal year ends Jun. o/w - out of which