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Western Digital (WDC.N)

Citi Tech Conference Takeaways – Reinforces Multi-Year AI Storage Growth Story

CITI'S TAKE

We hosted WDC's CFO Kris Sennesael at Citi's 2026 Global TMT conference today and recap takeaways below.

Demand – Western Digital believes the current cycle is fundamentally different from prior HDD upcycles because demand is now driven primarily by hyperscale cloud and AI infrastructure rather than PCs or traditional enterprise storage. Management affirms that AI training, inference, agentic AI, Physical AI, sovereign AI, and synthetic data generation are all increasing the amount of data that must be stored. While compute spending may fluctuate, data accumulation is persistent, supporting confidence in greater than 25% exabyte demand growth. The company points to long-term agreements, strategic customer planning, and visibility extending toward 2030-2031 as evidence that demand visibility is stronger than in prior cycles.

Supply and Pricing – Western Digital notes that industry demand continues to exceed supply and that customers are increasingly focused on securing capacity through LTAs. Unlike prior cycles, supply growth is being driven primarily through technology transitions and higher-capacity drives rather than major manufacturing capacity expansions. This environment has enabled a transition toward value-based pricing. As capacities increase from 32TB to 40TB, 44TB, and beyond, pricing is increasingly determined by the value customers receive through improved rack density, lower power consumption, and lower total cost of ownership rather than historical price-per-terabyte declines. Mgmt added that following price/TB price increases of +18-19% y/y last quarter, the company still sees room for further increases.

Continued...

Buy

Short-Term View: Upside, expires 11-OCT-26

Price (08 Sep 26 16:00)	US$477.33
Target price	US$740.00
Expected share price return	55.0%
Expected dividend yield	0.1%
Expected total return	55.2%
Market Cap	US$172,097M

Price Performance
(RIC: WDC.N, BB: WDC US)



EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons	VA Cons
2026A	1.78A	2.13A	2.72A	3.56A	10.22A	10.22A	10.38A
2027E	**4.02E**	**4.67E**	**5.53E**	**6.50E**	**20.69E**	**20.59E**	**20.66E**
Previous	4.02E	4.67E	5.53E	6.50E	20.69E	na	na
2028E	**7.03E**	**7.64E**	**8.32E**	**9.37E**	**32.32E**	**33.29E**	**35.02E**
Previous	7.03E	7.64E	8.32E	9.37E	32.32E	na	na
2029E	**na**	**na**	**na**	**na**	**42.85E**	**45.83E**	**44.33E**
Previous	na	na	na	na	42.85E	na	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus. VA Cons: Visible Alpha Consensus.

Click here for Visible Alpha consensus data

Asiya Merchant, CFA AC

Michael Cadiz

Product Ramps – HAMR remains on track for qualification and volume production, with customer reliability validation representing the most important milestone. Mgmt reminded investors of its four customers in HAMR qualification (suggesting broader customer engagement) and remains on-track for HAMR ramp starting 1HCY27. Meanwhile, next-gen ePMR (~40TB) quals are expected to ramp in the current qtr vs generally 2HCY26 prior. Meanwhile, LTAs feature upward pricing flexibility given technology improvements as products ramp, with demand visibility stretching into CY31 among its customer base. The roadmap extends from 44TB HAMR products to 50TB, 60TB, and ultimately much higher capacities. Western Digital believes its dual ePMR/HAMR strategy is a competitive advantage because it provides customers with a smoother technology transition and reduces deployment risk versus relying on a single recording technology path. Meanwhile on high-bandwidth drives (includes dual pivot technology), mgmt noted that engineering samples are currently with ~5 customers, with ramp expected to be introduced more closely tied to the 50TB+ generation.

Competitive Advantages – Western Digital highlights several key differentiators including:

- Deep strategic relationships with hyperscalers and multi-year planning engagement.
- Areal-density leadership, which drives both customer value and cost reductions.
- A dual ePMR/HAMR roadmap that provides flexibility and minimizes disruption.
- UltraSMR technology, which improves TCO and increases delivered exabytes.
- High-Bandwidth Drives, which expand HDD applicability within AI data lakes and high-throughput AI workloads.

Management increasingly positions the company as a long-term strategic infrastructure partner rather than simply an HDD supplier.

KV Cache – Management acknowledged that KV cache is currently a flash/SSD-oriented workload due to its higher performance, faster read/write speeds, and lower latency requirements, but emphasized that it does not view this as a structural displacement threat to HDDs. Instead, management highlighted ongoing investments in higher-performance HDD technologies designed to improve throughput and bandwidth, which could enable HDDs to participate in portions of the KV cache opportunity over time. Management's view is that while the hottest AI data may continue to reside on flash, future high-performance HDDs can address a broader range of AI storage workloads, reinforcing the company's belief that AI drives demand for both flash and HDDs rather than creating a w
outcome for flash storage.

Gross Margins – Western Digital's margin thesis is that value pe
increasing while cost per terabyte continues to decline. Manage
target approximately 10% annual cost-per-terabyte reductions
density gains, manufacturing productivity, and higher-capacity



Combined with value-based pricing, this supports a model capable of sustaining 50%+ gross margins, generating 70%+ incremental gross margins, and delivering meaningful operating leverage. Notably, management presents these margin improvements as structural and technology-driven rather than simply the result of cyclical pricing strength.

Cash Generation and Capital Allocation – Western Digital believes it is entering a period of exceptionally strong free cash flow generation supported by higher margins, disciplined CapEx, and robust exabyte growth. Management expects free cash flow to grow alongside operating income while maintaining a conservative balance sheet. The capital allocation framework is to:

1. Invest in technology leadership across ePMR, HAMR, heads, media, automation, and future roadmap initiatives.

2. Maintain a strong net-cash balance sheet and financial flexibility.

3. Return excess cash to shareholders through dividends and, particularly, share repurchases.

Management's view is that future exabyte growth can be supported primarily through technology transitions rather than significant factory expansion, allowing Western Digital to simultaneously invest in innovation and return substantial capital to shareholders.

Short-Term View on Western Digital (WDC.N)

Direction:	**Upside**
Duration:	Within 90 Days (expires 11 Oct 2026)
Date Added:	13 Jul 2026
Category:	Earnings

We have an upside 90-day ST View on WDC shares on the continuation of solid supply/demand dynamics and improving pricing dynamics. AI demand continues to drive higher content creation, accelerating generation of unstructured data, then stored, duplicated and versioned across collaboration platforms. Any improvement in KV caching is expected to further improve memory bottlenecks and drive growth in inferencing/storage. This constructive outlook comes on the heels of strong Mar Q execution as the company continues to benefit from strong demand for its high-capacity drives in addition to robust margins and a continued healthy pricing environment well-supported by limited production, demand visibility windows through CY26, CY27 and into CY28; and where the company continues to undersell industry demand.