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UPDATE

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Hard Disk Drives | North America

Another Toshiba Headline – Implications of The TDK Speculation, And What All This Means for HDDs

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IT HARDWARE

North America
Industry View **In-Line**

Key Takeaways

- Bloomberg reported STX and Toshiba could potentially acquire TDK's HDD head biz. Toshiba said the reporting was 'inconsistent' while STX didn't comment.
- There is strategic rationale for Toshiba to vertically integrate with TDK, a key supplier. Toshiba's recent Kioxia sale gives them new capital. However...
- ...in our view TDK wouldn't 1) accelerate Toshiba's expansion plans/clear a path to share gains, 2) give access to leading tech, or 3) create supply risk for STX/WDC.
- Following the 10-15% drawdowns from STX/WDC, we see a tactical 2:1 or 3:1 risk/reward skew, even assuming multiple compression vs. our base case.
- Earnings should be a strong, positive catalyst for STX/WDC, but catalyst path to re-rating is likely now longer given Toshiba concerns (even if little merit).

What's new? Overnight, Bloomberg reported that STX and Toshiba (not covered) are competing to acquire TDK's (covered by Shoji Sato) HDD business, a critical manufacturer of magnetic heads used for Hard Disk Drives. Bloomberg reported the deal could be worth several billion dollars, but also that executives from the three companies met in Tokyo last week to discuss ways to ensure continued supply of the key component, including the possibility of forming a joint venture. In an emailed statement to Bloomberg, a Toshiba spokesperson said that the report was "inconsistent with its understanding" and that of its principal backer, Japan Industrial Partners. To our knowledge, STX has not officially commented on the Bloomberg report. In a statement, TDK Corporation clarified that the information did not originate from the company and emphasized that no official decisions have been made. STX and WDC finished the day down 9% and 7%, respectively, and are down 15% and 11%, respectively, since immediately before the first Toshiba headlines hit, equating to $50B of lost aggregate market cap across three trading days.

The conclusion first - making sense of these headlines and what they mean for STX/WDC. We don't believe the market interpreted today's news as creating HDD head supply risk for STX/WDC; each are vertically integrated and source <5% of HDD heads from TDK. And importantly, TDK does not produce HAMR HDD heads (only STX/WDC do). Instead, we believe the market is concerned about a rational HDD oligopoly becoming irrational due to the potential actions of the distant 3rd player in the market, Toshiba. If we were to distill the building blocks of a P/E multiple into growth and predictability, we don't believe the market is changing its views on growth, but it's clearly taking a more concerned view on predictability. We

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don't agree with the markets' view for the reasons we detail below, and we remain just as convicted in our OW thesis, as we characterized yesterday. However, we also acknowledge that the catalyst path to calming the markets' concerns is now likely longer (or more complicated) than previously expected - a strong earnings report (beat/raise), continued margin expansion, accelerating pricing growth, lengthening/ broadening visibility and management eliminating the potential for any reciprocal supply actions should be clear positives for STX/WDC, but it's unclear if those are enough to fully quell the medium-term predictability concerns.

First, our thoughts on today's STX, Toshiba, TDK headlines. We don't believe the strategic rationale for STX potentially acquiring TDK's HDD magnetic heads business is clear - STX is already vertically integrated and expanding HAMR head capacity in Minnesota, has just a small reliance on TDK for conventional HDD heads (moreso for suspensions), and would likely face anti-trust challenges given Toshiba is 100% reliant on TDK for HDD heads. Toshiba acquiring TDK to vertically integrate more of their manufacturing base as they push to expand supply makes far more strategic sense to us. But again, we have no knowledge of any potential tie-up between these parties.

Second, what a Toshiba / TDK tie-up would, and would not, accomplish. Again, we believe the primary incentive for Toshiba potentially acquiring TDK's HDD head business would be to vertically integrate more of the supply chain, control more of their own destiny, and create a more favorable margin structure. But what a potential acquisition of TDK y Toshiba would not do is: (1) expand Toshiba's capacity any faster than the 30% annual EB expansion we estimated earlier this week - HDD suspension, media and substrate supply all remain tighter than heads, (2) give Toshiba any faster path to leading edge HDD technologies or capacities - Toshiba is trying to qualify low-30TB MAMR drives today (meaning 24-28TB's are peak capacity/drive today), and is yet to produce HAMR drives vs. STX entering their 2nd generation HAMR drives with 40TB capacities and WDC at 40-44TB ePMR and HAMR drives expected to come to market in C2H26 and CY27, (3) put STX/WDC at risk of HDD head supply (any deal would likely be subject to JFTC and FTC approval, at least), or (4) give Toshiba a clearer path to share gains, as share will remain constrained by supply growth in-line with the industry.

As such, while we understand the markets' knee-jerk reaction, we'd bring everyone back to our views from Monday. If a potential acquisition would not give Toshiba a path to faster supply growth, more competitive products, or market share gains, then why are STX/WDC selling off? Uncertainty - this is a market that will "shoot first, ask questions later", and this behavior was clear today. Why re-gross or double down on HDD longs when the catalyst path could be extended? Again, these are all rational views amidst confusion and misleading information in the market. Speaking of which - two points we want to provide clarity on: (1) it is incorrect to tie "Toshiba is expanding nearline EB supply" with "Toshiba is targeting 30% market share" - the former is a signal, the latter is entirely noise; and (2) it is incorrect to believe the major CSPs are now redirecting capacity to Toshiba - our checks would indicate the opposite, and that Toshiba is effectively already sold out of capacity in CY27, inclusive of the Philippines supply expansion. The majority of the highest quality demand (US CSPs) is going where capacity and leading edge technology



predominantly exist - STX and WDC.

How we think tactically about valuation and the risk/reward at these levels. We currently underwrite $80 of EPS in FY28 for STX, and $45 for WDC. Instead of our target 20x P/E, if we were to ascribe a 15x target P/E, we'd reach a $1200 valuation for STX and $675 for WDC. Conversely, if we were to assume Consensus FY28 EPS are correct (i.e. buyside is 40%+ too high) - $57 for STX, and $33 for WDC - and ascribe a near-trough 10x multiple, we'd reach a $570 valuation for STX and $330 for WDC. In other words, even if we trimmed our target P/E multiple to account for greater uncertainty and took a punitive "bear case" approach, we'd see a 3:1 positive risk/reward skew for WDC, and a 2:1 positive risk/reward skew for STX at current prices.

What is news that we'd consider thesis changing? (1) If STX/WDC decided to respond with unit capacity increases themselves, we'd consider that to be thesis changing, although there is clear evidence (via public remarks) they have zero intention to do so; (2) if we learned that any HDD vendor was using aggressive pricing as a tool to take share - again, our checks would suggest the exact opposite is happening amongst all 3 industry players right now; (3) it becomes clear Toshiba intends to 5x their production capacity in 12 months to flood the market with excess supply - a 5x production increase in 12 months (effectively impossible) is what Toshiba would need to actually get 30% market share; or (4) a new, credible competitor enters the market with leading technology (virtually impossible today).

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Valuation Methodology and Risks

Seagate Technology (STX.O)

Our PT implies 20.0x our CY27 EPS of $59.33, as we expect earnings upward revisions by the Street with shares trading 6.0x turns above the peak multiples in the previous industry upcycle.

Risks to Upside

- Demand accelerates
- AI drives incremental HDD demand
- GM expands to high-50% range
- Smoother/stronger cloud cycles drive multiple expansion
- STX exhibits more pricing power
- HAMR drives share gains

Risks to Downside

- Qualifications for high-capacity drives take longer than expected
- Steeper declines from cyclical markets
- GM doesn't further expand
- Pricing normalizes more than expected
- Geopolitical tensions & tariff costs

Western Digital (WDC.O)

Our PT implies 20.0x CY27 EPS of $33.80, as we expect earnings upward revisions by the Street with shares trading on par with STX at 6.0x turns above the peak multiples (14.0x) in the previous industry upcycle.

Risks to Upside

- Demand accelerates
- AI drives incremental HDD demand
- Smoother cloud cycles drive multiple expansion
- WDC exhibits more pricing power
- HAMR qualification/volume shipment timeline earlier than expected

Risks to Downside

- GM doesn't further expand
- Pricing normalizes more than expected
- Geopolitical tensions & tariff impacts
- Competitive pressures & HAMR timeline delays
- Dilution from converts more significant than expected

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(as of September 30, 2026)

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Equal-weight/Hold	1563	42%	394	42%	25%	763	43%
Not-Rated/Hold	2	0%	1	0%	50%	1	0%
Underweight/Sell	570	15%	96	10%	17%	227	13%
Total	3,734		946			1774	

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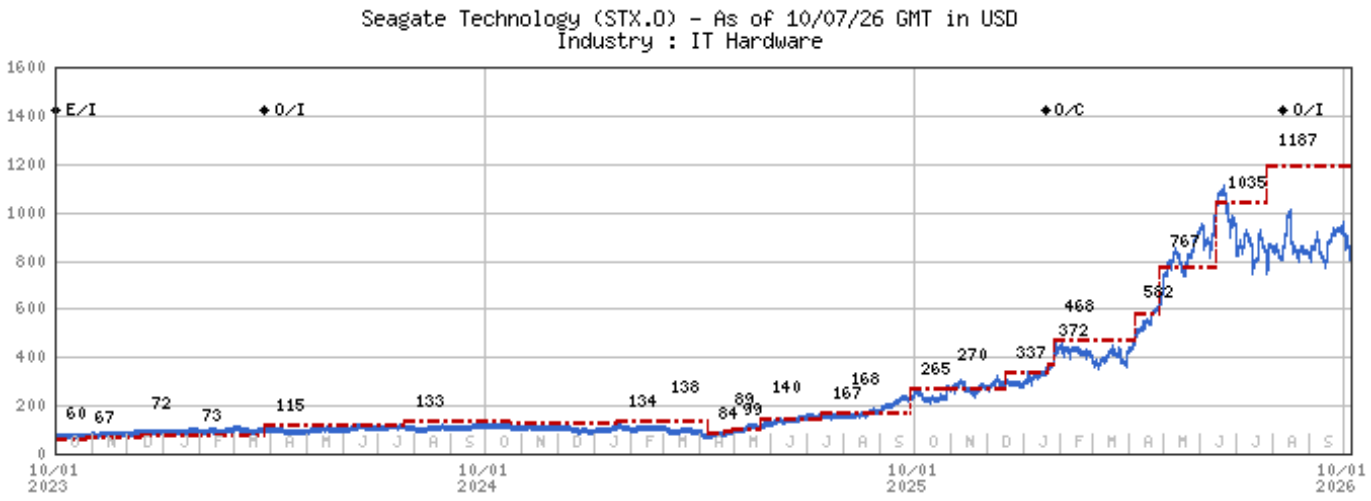
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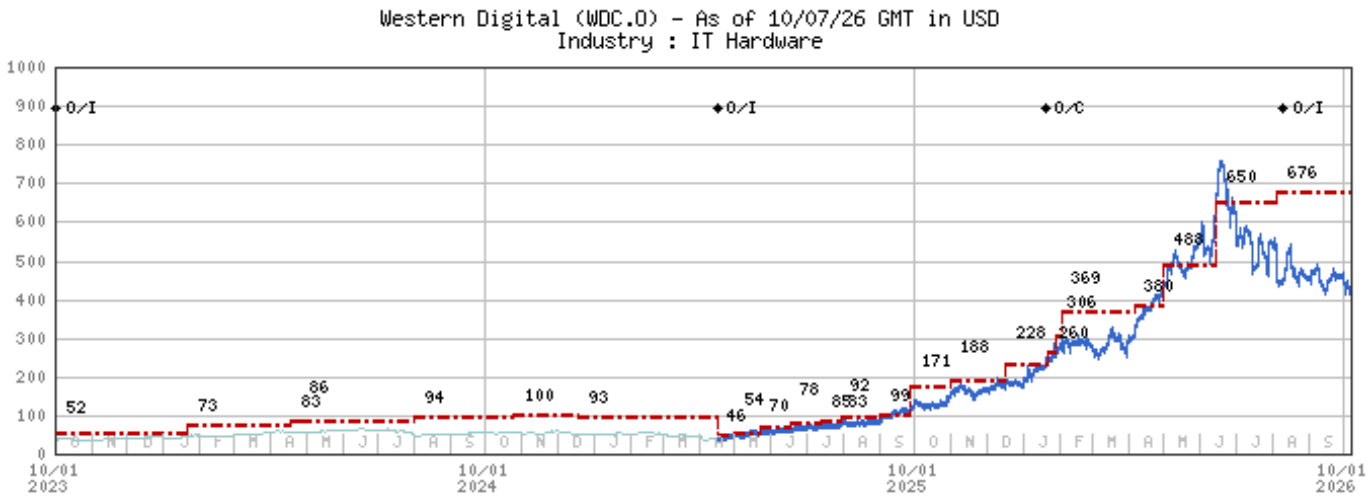
Stock Rating History: 10/1/21 : O/I; 10/5/21 : E/C; 1/18/23 : O/I; 4/21/23 : E/I; 3/26/24 : O/I; 1/20/26 : O/C; 8/10/26 : O/I

Price Target History: 7/21/21 : 118; 10/5/21 : 88; 10/22/21 : 94; 1/26/22 : 101; 3/30/22 : 99; 4/27/22 : 95; 7/14/22 : 89; 7/21/22 : 84; 8/31/22 : 70; 10/17/22 : 57; 10/26/22 : 54; 1/18/23 : 69; 1/26/23 : 72; 4/21/23 : 60; 10/26/23 : 67; 12/12/23 : 72; 1/25/24 : 73; 3/26/24 : 115; 7/24/24 : 133; 1/21/25 : 134; 2/26/25 : 138; 4/8/25 : 84; 4/22/25 : 89; 4/29/25 : 99; 5/23/25 : 140; 7/14/25 : 167; 7/29/25 : 168; 9/28/25 : 265; 10/29/25 : 270; 12/17/25 : 337; 1/22/26 : 372; 1/28/26 : 468; 4/6/26 : 582; 4/28/26 : 767; 6/15/26 : 1035; 7/28/26 : 1187

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target No Price Target Assigned (NA)
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Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target No Price Target Assigned (NA)

Stock Price (Not Covered by Current Analyst) Stock Price (Covered by Current Analyst)

Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View

Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)

Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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INDUSTRY COVERAGE: IT Hardware

COMPANY (TICKER)	RATING (AS OF)	PRICE* (10/06/2026)
Erik W Woodring		
Apple, Inc. (AAPL.O)	O (05/26/2009)	$333.63
CDW Corporation (CDW.O)	O (06/23/2026)	$135.67
Cricut Inc (CRCT.O)	U (08/12/2021)	$6.38
Dell Technologies Inc. (DELL.N)	E (06/01/2026)	$574.00
Everpure, Inc. (P.N)	O (08/10/2026)	$147.20
Garmin Ltd (GRMN.N)	E (02/18/2026)	$279.21
GoPro Inc (GPRO.O)	U (12/12/2023)	$1.32
Hewlett Packard Enterprise (HPE.N)	O (08/10/2026)	$70.48
HP Inc. (HPQ.N)	U (11/16/2025)	$31.73
IBM (IBM.N)	E (01/18/2023)	$221.29
Ingram Micro (INGM.N)	E (06/11/2025)	$28.17
Kornit Digital Ltd. (KRNT.O)	E (11/06/2025)	$18.15
Logitech International SA (LOGI.O)	U (01/20/2026)	$102.41
NetApp Inc (NTAP.O)	E (08/10/2026)	$228.45
Resideo Technologies Inc (REZI.N)	O (08/11/2025)	$18.92
Seagate Technology (STX.O)	O (03/26/2024)	$805.63
SmartRent, Inc. (SMRT.N)	++	$1.20
Sonos Inc. (SONO.O)	E (11/06/2025)	$17.43
TD Synnex Corporation (SNX.N)	O (06/11/2025)	$278.38
Teradata (TDC.N)	E (08/10/2026)	$29.62
Western Digital (WDC.O)	O (04/16/2025)	$411.04
Sanjit K Singh		
Nutanix Inc (NTNX.O)	E (01/12/2026)	$73.41

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* Historical prices are not split adjusted.

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