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U.S. IT Hardware

HDDs (STX, WDC): Toshiba's storm in a teacup



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Earlier today Toshiba announced plans to increase production capacity, which has been widely misquoted and misunderstood by the press. STX and WDC were both down 10% at the time of writing and this note dives into what we've learned.

Toshiba doubling capacity comments were misunderstood. Toshiba's press release today actually said that it is "aiming to nearly double production capacity by FY2027" (which ends March 2028). If Toshiba doubles EB output while WDC and Seagate each grow EB by 25% (in line with long-term plans), the ***resulting Toshiba EB share would increase from 11.2% to 16.8%***. Although significant, a 5.6% increase in market share isn' t that alarming and nowhere near the 30% market share reported in the press today.

Not our First Rodeo: Today's announcement also brings back memories of 2022 when Toshiba similarly announced that it would increase its market share from 17% in FY2021 to 25% in FY2025 and 30% soon after that. The reality was that ***market share actually fell from 17% to 11%*** where it is today.

The reported capital investment appears insufficient and also **unclear where the component supply would come from**. Nikkei reported $380 million investment represents approximately 12% of Toshiba's roughly $3.1 billion annual HDD revenue. By comparison, Seagate and Western Digital typically spend approximately 4-6% of revenue on capex, or roughly 5%, while targeting approximately 25% annual growth in exabytes shipped. On a simple linear basis, supporting 100% capacity growth would therefore imply capex of at least 20% of revenue. Even that likely understates Toshiba's investment requirement: Seagate and Western Digital can generate their exabyte growth through higher capacity per drive, whereas Toshiba's lagging areal density means it would likely need to add more physical drives, requiring greater investment in assembly, heads, media, testing and the broader supply chain.

As the HDD technology laggard, areal density is the key execution risk for Toshiba. Though not confirmed by the company, Nikkei reported a goal of 40% increase in capacity per drive for Toshiba. Achieving this goal by FY2027 appears aggressive given Toshiba's competitive position and execution history. Toshiba previously targeted 30TB drives by FY2023 and more than 40TB around FY2025-FY2026, but is only now sampling 30-34TB SMR products. Further capacity gains depend on successful execution across a 12-disk architecture, glass media, density scaling and customer qualification. Any delay would reduce Toshiba's FY2027 exabyte capacity because the reported investment does not appear sufficient to compensate through substantially higher physical unit production.

Toshiba's technology roadmap trails Western Digital's, which in turn trails Seagate's. Seagate is therefore best positioned to scale exabyte output through areal-density gains, while Toshiba will likely need to add more physical units simply to keep pace with industry exabyte growth, making its capacity expansion more difficult and capital-intensive.

In conclusion, we see today's news as a storm in a teacup and would look to buy on this weakness. We reiterate Outperform on STX (top pick) and WDC.

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First Published: 02 Oct 2026 20:14 UTC Completion Date: 02 Oct 2026 20:14 UTC

Earlier today Toshiba announced plans to increase production capacity, which has been widely misquoted and misunderstood by the press. STX and WDC were both down 10% at the time of writing and this note dives into what we've learned.

WHAT TOSHIBA ACTUALLY ANNOUNCED

On October 2, 2026, Toshiba announced **that it aims to nearly double annual production capacity by FY2027 relative to FY2025, measured on a storage-capacity basis.** As a part of the initiative, its Philippine HDD subsidiary had begun nearline HDD production at its Laguna Technopark facility, which previously focused primarily on PC HDDs.

Toshiba is targeting a near-doubling of **exabyte capacity,** not physical HDD units. The increase can therefore come from a combination of additional units, areal density, more platters per drive, etc. **Toshiba also said "nearly double," rather than committing to a full 100% increase.**

The more aggressive figures cited in the press **were reported by Nikkei and were not officially announced by Toshiba.** These include approximately Y60 billion, or $380 million, of investment, up to 40% more capacity per drive and a 30% medium-term exabyte-share target. These figures should not be treated as formal company targets for Toshiba.

A DOUBLING WOULD INCREASE TOSHIBA'S SHARE TO ONLY 16.8%

Toshiba held approximately 11.2% exabyte share in FY2025, compared with 47.2% for WDC and 41.7% for Seagate. If Toshiba doubled its exabyte output while WDC and Seagate remained completely flat, Toshiba's share would reach approximately 20.1%, far from the 30% goal.

Holding WDC and Seagate flat is unrealistic, however. Both companies are targeting approximately mid-20% nearline exabyte growth, primarily through higher capacity per drive rather than physical unit additions. **If Toshiba doubles output while WDC and Seagate each grow 25%, the resulting Toshiba share would be 16.8%.**

Even under the generous assumption that Toshiba fully doubles output, its share would increase by only 5.6 percentage points, from **11.2% to 16.8%, while total industry supply would grow approximately 33% vs 25% before.** This is an incremental change, but much less disruptive than the double capacity and 30% share headlines suggest. Moreover, we believe it is likely Toshiba will fall significantly short of doubling their capacity.

TODAY'S BOLD CLAIMS HAVE PRECEDENT

Today's announcement also brings back **memories of 2022 when Toshiba similarly announced that it would increase its market share from 17% in FY2021 to 25% in FY2025 and 30% soon after that**. The reality was that ***market share actually fell from 17% to 11%*** where it is today. In both instances Toshiba was drumming up investor interest, and the results speak for themselves.

THE REPORTED INVESTMENT APPEARS INSUFFICIENT

Nikkei's reported $380 million investment represents approximately 12% of Toshiba's roughly $3.1 billion in annual HDD revenue. By comparison, Seagate and Western Digital typically spend approximately 4-6% of revenue on capex, or roughly 5%, while targeting approximately 25% annual growth in exabytes shipped. **On a simple linear basis, supporting 100% capacity growth would therefore imply capex of at least 20% of revenue. Even that likely understates Toshiba's investment requirement:** Seagate and Western Digital can generate their exabyte growth through higher capacity per drive, whereas Toshiba's lagging areal density means it would likely need to add more physical drives, requiring greater investment in assembly, heads, media, testing and the broader supply chain. Toshiba has not officially disclosed the size of its investment, but the $**380 million reported by Nikkei appears far too low to support a near-doubling of capacity.**

AS THE TECH LAGGARD, AREAL DENSITY IS THE KEY EXECUTION RISK FOR TOSHIBA

Though not officially confirmed by the company, Nikkei reported a goal of 40% increase in capacity per drive for Toshiba. Achieving this goal by FY2027 appears aggressive given Toshiba's competitive position and **execution history**. Toshiba previously targeted 30TB drives by FY2023 and more than 40TB around FY2025-FY2026, but is only now sampling 30-34TB SMR products.

Further capacity gains depend on successful execution across a 12-disk architecture, glass media, density scaling and customer qualification. **Any delay would reduce Toshiba's FY2027 exabyte capacity because the reported investment does not appear sufficient to compensate through substantially higher physical unit production.**

Toshiba's technology roadmap trails Western Digital's, which in turn trails Seagate's. Seagate is therefore best positioned to scale exabyte output through areal-density gains, while Toshiba will likely need to add more physical units simply to keep pace with industry exabyte growth, making its capacity expansion more difficult and capital-intensive.

INVESTMENT IMPLICATIONS

In conclusion, we see today's news as a storm in a teacup and would look to buy on this weakness. We reiterate Outperform on STX (top pick) PT $1350; and Outperform on WDC, PT $770.

BERNSTEIN TICKER TABLE

			1 Oct 2026		TTM	Adjusted EPS				Adjusted P/E (x)		
			Closing	Price	Rel.							
Ticker	Rating	Cur	Price	Target	Perf.	Cur	2026A	2027E	2028E	2026A	2027E	2028E
STX (Seagate)	O	USD	945.57	1,350.00	213.8%	USD	15.53	40.61	64.40	60.9	23.3	14.7
WDC (Western Digital)	O	USD	462.56	770.00	201.3%	USD	10.19	23.39	36.58	45.4	19.8	12.6
SPX			7,666.45									

O - Outperform, M - Market-Perform, U - Underperform, NR - Not Rated, CS - Coverage Suspended

Source: Bloomberg, Bernstein estimates and analysis.



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Seagate Technology PLC

We value Seagate at 21x our FY28 EPS of $64.40, implying $1,350 per share. We believe Seagate's improving fundamentals, >70% 5year EPS CAGR, and HAMR leadership easily justifies a 21x P/E, and arguably much higher.

Western Digital Corp

We rate WDC Outperform and have a TP of $770, on 21x our FY28 EPS.

RISKS

Seagate Technology PLC

The biggest risks to the downside on Seagate and to our price target are that: The HDD market is heavily exposed to hyperscale cloud, and could be impacted by a cloud capex digestion or else incremental pressure from changes in hyperscaler buying patterns. 2) WDC could close the gap in HAMR more quickly than expected, shrinking the scope for market share gain and margin improvement. 3) NAND could see better than expected technology improvement and take share from HDDs.

Western Digital Corp

The biggest risks to the downside on WDC and to our price target are that: 1) The HDD market is heavily exposed to hyperscale cloud, and could be impacted by a cloud capex digestion or else incremental pressure from changes in hyperscaler buying patterns; 2) NAND could see better than expected technology improvement and take share from HDDs; and 3) WDC could face significant risks ahead with its HAMR technology transition which could provide a drag on gross margin and EPS.

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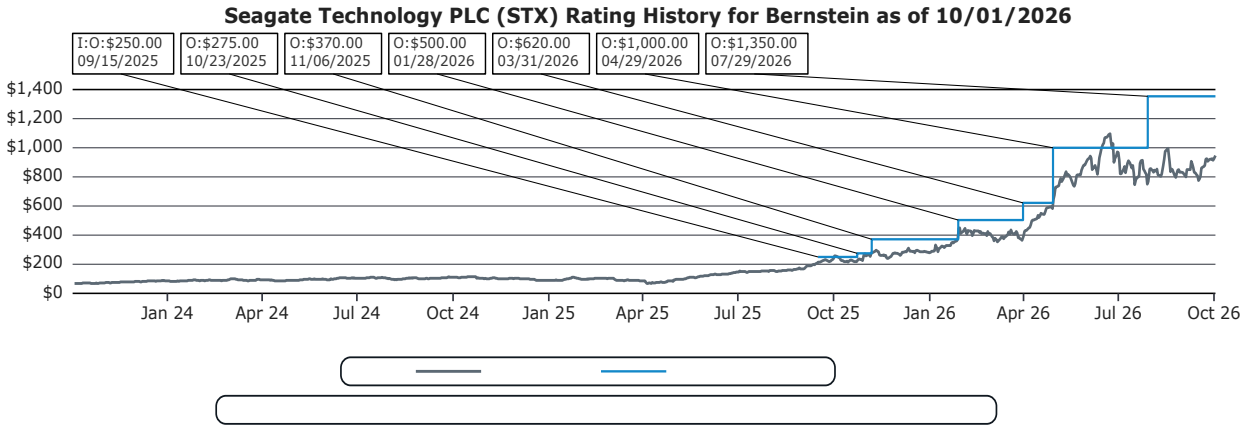
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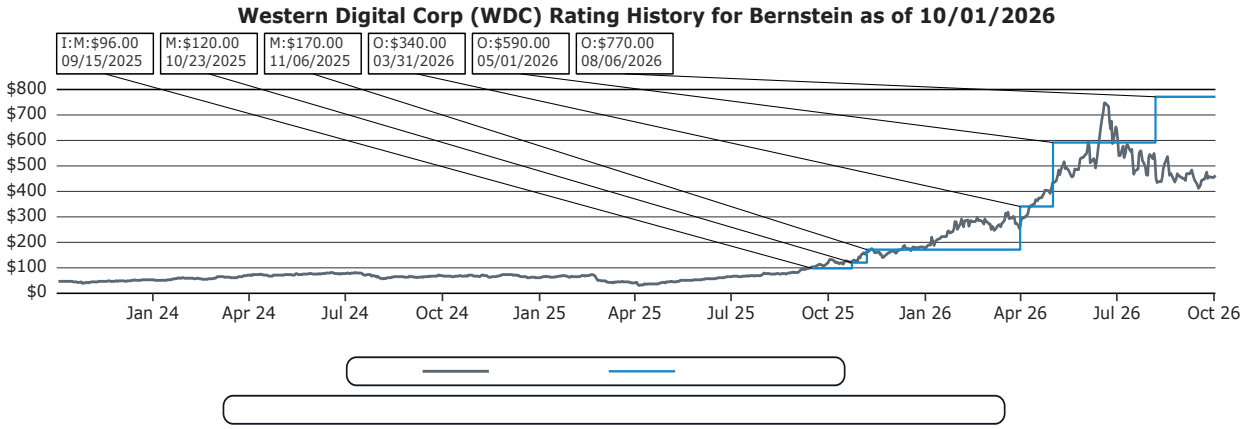
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