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BERNSTEIN
SOCIETE GENERALE GROUP

U.S. IT Hardware

HDDs (STX, WDC): TDK's crown jewels up for grabs?



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Bloomberg news reported yesterday that Seagate and Toshiba are locked in a contest for TDK's magnetic heads business for HDD. STX fell 9% and WDC fell 7% on this news.

Why were STX and WDC shares down on this news? We think the market has three main concerns with this news, particularly when combined with the other recent headlines of Toshiba adding capacity (that we wrote on here): **1)** it increases concerns that Toshiba is getting more aggressive on capacity expansion; **2)** if Toshiba ultimately wins the asset, a vertically integrated Toshiba hurts Seagate and Western Digital, and **3)** if Seagate wins the asset, Western Digital would be at a disadvantage to Seagate.

We think all three concerns are overstated: Firstly we don't have confirmation of this news. The articles have a lot of details and sources and thus appear to have some truth, but we don't know how serious any discussions are. There have been some comments from both TDK and Toshiba which effectively deny that any decision has been made, and deny some of the specifics of the Bloomberg article, but ***do not deny outright that any discussion between TDK and Toshiba is underway***.

Toshiba's capacity increase would still leave it well behind STX and WDC. Toshiba has roughly 11% share of the HDD market in EB, and as we previously outlined in our note here: if Toshiba doubles EB capacity while WDC and Seagate each grows 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. Buying the unit would further secure Toshiba's existing head supply, but wouldn't directly add HDD manufacturing or head capacity.

Seagate and Western Digital have limited reliance on TDK for their total head needs. TDK has 15-20% market share in the global HDD head market, with Seagate's and Western Digital's in-house productions splitting the remaining 80-85%. We estimate that Toshiba accounts for ~14% of HDD industry head demand (above its 11.2% share in HDD because its drives hold less capacity per platter and so need more heads per EB), and therefore, Toshiba alone absorbs 70-90% of TDK's head output. What is left covers only 1-7% of Seagate and Western Digital's combined head demand. Both companies also make most of their heads in-house. TDK may matter at the margin, especially when demand is strong, but it is not a critical source for most of their production.

There's also significant regulatory hurdle to cross for either bidder. TDK is the only independent head maker in a three-player industry, so either bid going through suggests the acquirer controlling its rival's critical component input, which we believe would trigger close antitrust scrutiny. In summary we believe ***a deal with Toshiba due to its lower market share would be easier to get regulatory approval***.

Buy STX and WDC on weakness (STX top pick). Finally, we see reg
risks to any transaction, but the direct threat to Seagate and Western D
limited than today's share-price reaction implies.



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Bloomberg news reported yesterday that Seagate and Toshiba are locked in a contest for TDK's magnetic heads business for HDD, as the two rivals try to keep pace with demand for AI data-center storage devices — the news reported that Toshiba opened talks in the spring to buy TDK's HDD magnetic-head unit, and Seagate countered with a higher offer over the summer, in a deal that could be worth several billion dollars. Toshiba has disputed the report's description of a competitive sale, and no transaction has been announced. We note that TDK is the only independent supplier of HDD magnetic heads; Seagate and Western Digital manufacture most of their heads in-house while Toshiba relies on TDK.

Why were STX and WDC shares down on this news? We think the market has three main concerns with this news, particularly when combined with the other recent headlines of Toshiba adding capacity (that we wrote on here): **1)** it increases concerns that Toshiba is getting more aggressive on capacity expansion; **2)** if Toshiba ultimately wins the asset, a vertically integrated Toshiba hurts Seagate and Western Digital, and **3)** if Seagate wins the asset, Western Digital would be at a disadvantage to Seagate.

WE THINK ALL THREE CONCERNS ARE OVERSTATED

Firstly we don't have confirmation of this news. The articles have a lot of details and sources and thus appear to have some truth, but we don't know how serious any discussions are. There have been some comments from both TDK and Toshiba which effectively deny that any decision has been made, and deny some of the specifics of the Bloomberg article, but ***do not deny outright that any discussion between TDK and Toshiba is underway***.

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- **STX**: "we design and manufacture many of the critical technologies incorporated into our HDD products, including read/ write heads, magnetic recording media and other core components." (Source: STX filing)
- **WDC**: "we design and manufacture substantially all of the recording head and magnetic media in our HDD products, positioning us as an industry leader in innovations that drive higher areal density and superior performance. " (Source: WDC filing)

WDC is mostly self-sufficient. We think WDC should be largely insulated from the news either way given that it makes substantially all of its heads in-house.

THERE'S A SIGNIFICANT REGULATORY HURDLE TO CROSS FOR EITHER BIDDER

TDK is the only independent head maker in a three-player industry, so either bid going through suggests the acquirer controlling its rival's critical component input, which we believe would trigger close antitrust scrutiny. In summary we believe ***a deal with Toshiba would be easier to get regulatory approval***.

- **Seagate + TDK:** We believe this outcome is ***unlikely***. This would put more than half of the global head output under one roof (40%+ from Seagate, and 15-20% from TDK). Toshiba would find itself buying heads from one of its two main (and larger) competitors, and WDC would similarly lose the option to buy surge capacity. Furthermore, a Toshiba spokesperson is reported to have denied the contest over TDK's heads unit saying it doesn't match the company's understanding of the event (see here), and Japan Industrial Partners backed up that denial, saying no three-way talks have taken place between Toshiba, TDK and Seagate about future supplies of hard-disk drive heads.

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- **Toshiba + TDK**: Comparing to Seagate, Toshiba would be the ***more likely owner***, but we remain skeptical of the feasibility of the deal too. Seagate and Western Digital make their own magnetic heads but rely on TDK to cover surges in demand, so Toshiba can still gain pricing power and limit the ability of STX and WDC to ramp up output, during a time of significant storage shortage. On top of antitrust concerns, Toshiba's own capital structure presents another hurdle — the Toshiba corporate bond is already BB-rated by S&P, the estimated billions of dollars acquisition of TDK would add to existing buyout debt (by Japan Industrial Partners) and a potential $380mn proposed capex. Finally given Toshiba's weak financial standing and poor execution in HDDs, we believe this move could end up being a ***strategic misstep for the company***.

Buy STX and WDC on weakness (STX top pick). We see regulatory, supply and financing risks to any transaction, but the direct threat to Seagate and Western Digital looks more limited than today's share-price reaction implies.

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INVESTMENT IMPLICATIONS

We rate Seagate and Western Digital OP.

BERNSTEIN TICKER TABLE

			6 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	805.63	1,350.00	242.0%	USD	15.53	40.61	64.40	51.9	19.8	12.5
WDC (Western Digital)	O	USD	411.04	770.00	226.7%	USD	10.19	23.39	36.58	40.3	17.6	11.2
SPX			7,818.93									

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.

RATINGS DEFINITIONS, BENCHMARKS AND DISTRIBUTION

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Bernstein brand

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Bernstein brand stock ratings are based on a 12-month time horizon.

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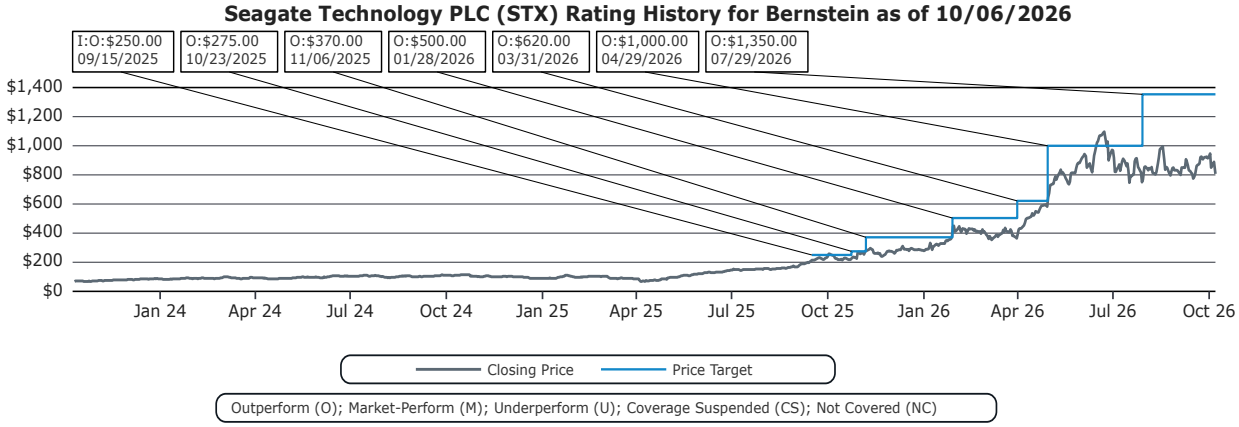
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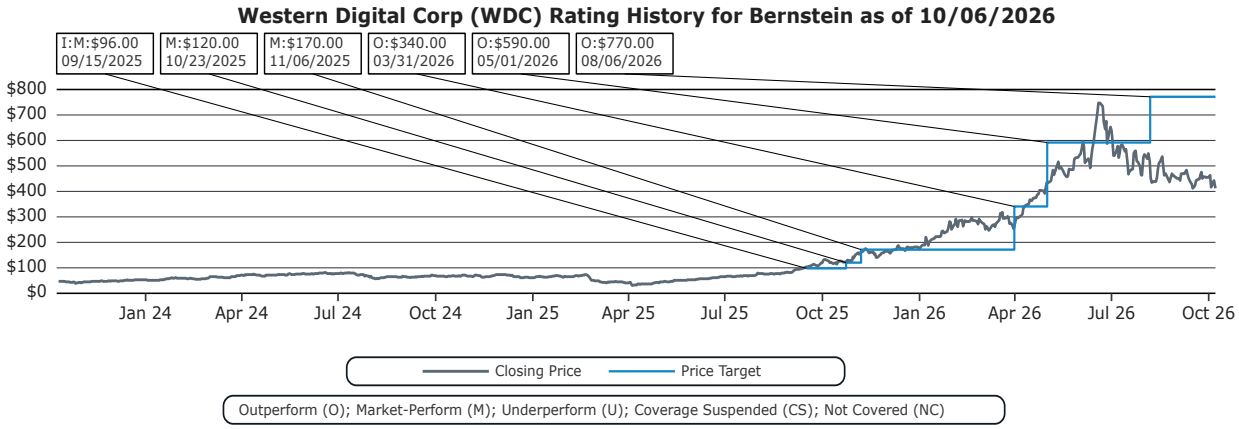
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