Hardware & Networking

HDD Preview: Recent Pullback Creates Positive Setup into F1Q27 as Industry Trends Stay Intact; Favor STX vs. WDC

IT Hardware/ Telecom & Networking Equipment

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We are heading into the F1Q27(Sep-end) earnings season with near-term EB, pricing, and margin trends remaining broadly supportive of upside; however, investor focus is increasingly shifting toward the durability of supply discipline and overall execution, particularly in light of recent press reports around Toshiba adding capacity and potentially acquiring TDK's HDD head business (see press reports here and here). This is playing out against a backdrop of increasing scrutiny on the AI trade reaching a crescendo, all of which has driven HDD shares to underperform both our coverage universe and the broader market since the end of the summer (average of -25% vs. -6% for Hardware & Networking and 0% for the S&P 500).

That said, we expect HDD companies to push back not only on broader concerns around AI spending, but also on the idiosyncratic sentiment facing the sector. We see the group as well positioned for more pronounced positives heading into earnings season, with continued momentum around price increases driving revenue-per-exabyte upside alongside declines in COGS-per-exabyte, supporting continued gross margin progression for both companies. Between the two, we see a more favorable setup for Seagate, with its leadership in the HAMR transition creating greater scope for positive surprises in both F1Q27 results and the F2Q27 guidance, while Western Digital's product transitions temper near-term results on a relative basis and place greater emphasis on the timing of reaching parity with its peer through FY27.

While we see room for near-term upside, and for management teams to discuss visibility into volume and pricing given LTAs while continuing to take a disciplined approach to EB expansion via the introduction of higher-capacity drives, supported by innovation and investments in underlying component manufacturing, we admittedly see greater investor scrutiny around the broader uncertainty as a tall hurdle. In our view, that likely warrants more measured valuation multiples near-term, leading us to reset the group to mid-teens multiples (vs. high-teens previously), which remains well ahead of the historical multiple, supported by a robust demand and disciplined supply environment, while still conservative relative to some other AI-levered vendors to reflect the aggressive pricing benefits.

Seagate (STX)

Continued Volume and Pricing Momentum to Support Sequential Revenue and Margin Expansion Through FY27

Equity Ratings and Price Targets

Company	Ticker	Mkt Cap ($ mn)	Price ($)	Rating Cur	Rating Prev	Price Target Cur	Price Target End Date	Price Target Prev	Price Target End Date
Seagate	STX US	147,611.30	639.01	OW	n/c	1,050.00	Dec-27	1,240.00	n/c
Western Digital	WDC US	128,816.00	332.00	OW	n/c	600.00	Dec-27	715.00	n/c

Source: Company data, Bloomberg Finance L.P., J.P. Morgan estimates. n/c = no change. All prices as of 16 Oct 26

See page 8 for analyst certification and important disclosures.

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We expect Seagate to deliver better-than-consensus F1Q27 (Sep-end) earnings, with both revenue and margins tracking toward the high end of the outlook, driven by +38% y/y growth in datacenter EB shipment. Looking ahead to F2Q27 (Dec-end), we expect guidance to come in ahead of sell-side consensus, supported by near-term upside to nearline demand on sustained cloud buildouts. At the same time, with supply continuing to lag demand and prompting customers to secure capacity through LTAs, we expect management to continue underscoring extended visibility into CY28 and beyond, while also addressing the sustainability of pricing against a backdrop of investor concern around industry capacity additions. To that end, we are adjusting our FY27 forecast to better reflect the ramp and transition from Mozaic 3+ to Mozaic 4+, with as a reminder HAMR expected to account for ~50% of total nearline EB shipments by CY26-end. However, given broader investor scrutiny around uncertainty related to AI investments, as well as more specific risks to the HDD industry in such an environment, particularly if additional drive capacity were to come online, we are reducing our target multiple to the mid-teens (vs. high-teens prior), such that our December 2027 price target now tracks to $1,050 (vs. $1,240 prior).

- **F1Q27 (Sep-end) Results: Revenue and earnings to track above the high-end of guidance and ahead of consensus driven by better-than-expected trends.** We are forecasting revenue of $4.2 bn (vs. consensus of $4.1 bn and guidance of $4.0-$4.2 bn), representing growth of +62% y/y. Meanwhile, we are forecasting gross margins of 57.4% (vs. consensus of 57.4%) and operating margins of 50.3% (vs. consensus of 50.5% and guidance of ~50%), which leads to our earnings forecast of $7.58 (vs. consensus of $7.37 and guidance of $7.10-$7.50).
- **F2Q27E(Dec-end) Guide: Expect revenue and earnings to track modestly ahead of consensus.** We are forecasting revenue of $4.6 bn (vs. consensus of $4.5 bn), representing growth of +64% y/y. Meanwhile, we are forecasting gross margins of 59.5% (vs. consensus of 59.0%) and operating margins of 52.9% (vs. consensus of 52.8%), which leads to our earnings forecast of $8.68 (vs. consensus of $8.46).

Western Digital (WDC)

Product Transitions to Temper Near-Term Growth in FY27; Path to Reacceleration to Be in Focus

Western Digital shares have declined -24% since the last earnings print (vs. a +3% for S&P 500), as multiple product transitions weighed on F4Q26 exabyte shipment growth, while implied F1Q27 guidance points to another quarter of growth below both the company's long-term target of 25%+ and its peer. Nonetheless, underlying demand remains robust, with management indicating industry demand growth slightly above this target, supported by rising data requirements as AI expands from training into other applications. Against this backdrop, we expect Western Digital to deliver F1Q27 (Sep-end) earnings better than consensus, with guidance for F2Q27 (Dec-end) following a similar setup as strong demand is balanced by the product transitions. Importantly, we expect investors to focus on the trajectory of EB growth through the year, particularly with expectations for the overhang to moderate in combination with the introduction and ramp of HAMR products heading into CY27. Thus, we are tweaking our model to reflect the aforementioned dynamics, while maintaining our long-term expectations for 25%+ EB growth and leaving our out-year earnings estimates largely unchanged. Similar to Seagate, given broader investor scrutiny around uncertainty related to AI investment, as well as more specific risks to the HDD industry in such an environment, particularly if additional drive capacity were to come online, we are reducing our target multiple to the mid-teens (vs. high-teens prior), such that our December 2027 price target now tracks to $600 (vs. $715 prior).

- **F1Q27 (Sep-end) Results: Earnings to track ahead of consensus.** We are forecasting revenue of $4.2 bn (vs. consensus of $4.1 bn and guidance of $4.0-$4.2 bn), representing growth of +48% y/y. Meanwhile, we are forecasting gross margins of 56.5% (vs.

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consensus of 56% and guidance of 55-56%) and operating margins of 47% (vs. consensus of 46.4%), which leads to our earnings forecast of $4.17 (vs. consensus of $4.09 and guidance of $3.85-$4.15).

- **F2Q27E(Dec-end) Guide: Expect revenue and earnings to track broadly in-line with consensus.** We are forecasting revenue of $4.5 bn (vs. consensus of $4.6 bn), representing growth of +49% y/y. Meanwhile, we are forecasting gross margins of 58.5% (vs. consensus of 57.7%) and operating margins of 49.7% (vs. consensus of 48.6%), which leads to our earnings forecast of $4.80 (vs. consensus of $4.77).

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Investment Thesis, Valuation and Risks

Seagate *(Overweight; Price Target: $1,050.00)*

Investment Thesis

We rate Seagate shares Overweight on account of a very attractive set up for the overall HDD industry, which is positioned to benefit from both strong demand stemming from hyperscaler capex plans as well as pricing tailwinds. STX is ahead in terms of technology transition and is already shipping next-generation HAMR based solutions to data center 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

We are lowering our December 2027 price target to $1,050 (vs. $1,240 prior), based on valuing our 2028E EPS estimate at a ~15x P/E multiple. We believe the target multiple is justified as it is well ahead of the historical multiple driven by robust demand from hyperscaler capex plans, and still conservative relative to some other AI-levered vendors (e.g. Optical) to reflect less aggressive pricing actions.

STX P/E-Based Price Target

$ in mns, except per share amounts

	NTM Qtrs 1-4	2028E
JPM Net Income	**8,760**	**16,742**
JPM EPS	$37.79	$71.23
P/E Multiple	17x	
JPM P/E Multiple		15x
Implied Equity Value	**147,611**	**246,779**
Average Diluted Share Count	231	235
Implied Share Price	$639.0	**$1,050**
Current Value per Share	639.0	639.0
Upside vs. Current		64%
Memo:		
(-) Net Cash/(Debt)	(1,861)	23,035
Enterprise Value	149,472	223,744
JPM EBITDA	10,999	20,837
Implied EV/EBITDA	*13.6x*	*10.7x*

Source: Bloomberg Finance L.P. and J.P. Morgan estimates.

Risks to Rating and Price Target

Downside risks to our rating and price target include a slowdown in Cloud capex spending on AI infrastructure, which could present risk to demand growth forecasts for the HDD industry despite the current robust pipeline of investment announcements. Additionally, technology disruptions – including faster-than-expected migration to flash-based storage driven by narrowing cost differentials between HDDs and NAND, and greater progress on NAND density could present headwinds to our expectations for Seagate shares.

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Investment Thesis, Valuation and Risks

Western Digital *(Overweight; Price Target: $600.00)*

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

We are lowering our December 2027 price target to $600 (vs. $715 prior), based on valuing our 2028E EPS estimate at a ~15x P/E multiple, which is largely in-line with the target multiple for the key peer Seagate- and is ahead of the historical multiple given robust HDD storage demand across data centers.

WDC P/E-Based Price Target

$ in Millions, except per share amounts

	NTM Qtrs 1-4	2028E
JPM Net Income	**8,254**	**15,715**
JPM EPS	$21.46	$41.40
P/E Multiple	15x	
JPM P/E Multiple		15x
Implied Equity Value	**128,816**	**227,869**
Average Diluted Share Count	388	380
Implied Share Price	**$332**	**$600**
Current Value per Share	$332.00	$332.00
Upside vs. Current		81%
Memo:		
(-) Net Cash/(Debt)	527	17,858
Enterprise Value	128,289	210,011
JPM EBITDA	10,496	19,861
Implied EV/EBITDA	*12.2x*	*10.6x*

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 Cloud capex spending on AI infrastructure, which could present risk to demand growth forecasts for the HDD industry despite the current robust pipeline of investment announcements. Additionally, technology disruptions – including faster-than-expected migration to flash-based storage driven by narrowing cost differentials between HDDs and NAND, as well as greater progress on NAND density -- could present headwinds to our expectations for WDC shares.

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Seagate: Summary of Financials

Income Statement - Annual	FY25A	FY26A	FY27E	FY28E	FY29E
Revenue	**9,097**	**12,195**	**19,490**	**27,473**	**35,081**
COGS	(5,842)	(6,575)	(7,643)	(9,123)	(10,832)
Gross profit	**3,255**	**5,620**	**11,847**	**18,349**	**24,249**
SG&A	(404)	(415)	0	0	0
Adj. EBITDA	**2,349**	**4,708**	**10,999**	**17,627**	**23,644**
D&A	(222)	(258)	(356)	(510)	(657)
Adj. EBIT	**2,127**	**4,450**	**10,643**	**17,117**	**22,987**
Net Interest	-	-	-	-	-
Adj. PBT	**1,802**	**4,186**	**10,425**	**16,899**	**22,769**
Tax	(69)	(648)	(1,665)	(2,787)	(3,731)
Minority Interest	-	-	-	-	-
Adj. Net Income	**1,733**	**3,538**	**8,760**	**14,113**	**19,037**
Reported EPS	8.11	15.59	43.00	65.68	85.89
Adj. EPS	**8.11**	**15.59**	**37.80**	**60.40**	**80.55**
DPS	**-**	**-**	**-**	**-**	**-**
Payout ratio	-	-	-	-	-
Shares outstanding	214	227	232	234	236

Income Statement - Quarterly	1Q27E	2Q27E	3Q27E	4Q27E
Revenue	**4,249**	**4,621**	**5,006**	**5,614**
COGS	(1,810)	(1,873)	(1,939)	(2,020)
Gross profit	**2,439**	**2,748**	**3,067**	**3,594**
SG&A	0	0	0	0
Adj. EBITDA	**2,216**	**2,531**	**2,857**	**3,395**
D&A	(77)	(84)	(92)	(103)
Adj. EBIT	**2,139**	**2,447**	**2,766**	**3,291**
Net Interest	-	-	-	-
Adj. PBT	**2,085**	**2,392**	**2,711**	**3,237**
Tax	(334)	(383)	(434)	(515)
Minority Interest	-	-	-	-
Adj. Net Income	**1,751**	**2,009**	**2,278**	**2,722**
Reported EPS	8.87	9.98	11.12	13.02
Adj. EPS	**7.58**	**8.68**	**9.82**	**11.72**
DPS	**-**	**-**	**-**	**-**
Payout ratio	-	-	-	-
Shares outstanding	231	232	232	232

Balance Sheet & CashFlow Statement	FY25A	FY26A	FY27E	FY28E	FY29E
Cash and cash equivalents	891	1,704	7,762	18,927	34,818
Accounts receivable	959	1,534	2,203	2,985	3,769
Inventories	1,440	1,571	1,917	2,293	2,762
Other current assets	2,762	3,517	4,897	6,374	7,931
Current assets	**3,653**	**5,221**	**12,660**	**25,301**	**42,749**
PP&E	1,657	2,034	2,633	3,421	4,323
LT investments	-	-	-	-	-
Other non current assets	1,492	1,496	1,497	1,497	1,497
Total assets	**8,023**	**9,972**	**18,010**	**31,440**	**49,790**
Short term borrowings	0	185	0	0	0
Payables	1,604	1,748	2,135	2,554	2,984
Other short term liabilities	1,044	1,194	1,194	1,194	1,194
Current liabilities	**2,648**	**3,127**	**3,329**	**3,748**	**4,178**
Long-term debt	4,995	3,380	3,380	3,380	3,380
Other long term liabilities	5,828	4,678	4,678	4,678	4,678
Total liabilities	**8,476**	**7,805**	**8,007**	**8,426**	**8,856**
Shareholders' equity	(453)	2,167	10,003	23,015	40,934
Minority interests	-	-	-	-	-
Total liabilities & equity	**8,023**	**9,972**	**18,010**	**31,440**	**49,790**
Net debt/(cash)	4,104	1,861	(4,382)	(15,547)	(31,438)
Cash flow from operating activities	**1,083**	**3,674**	**8,143**	**13,585**	**18,587**
o/w Depreciation & amortization	251	276	376	530	677
o/w Changes in working capital	(965)	(159)	(993)	(1,058)	(1,127)
Cash flow from investing activities	**(276)**	**(525)**	**(974)**	**(1,319)**	**(1,579)**
o/w Capital expenditure	(265)	(569)	(974)	(1,319)	(1,579)
as % of sales	*2.9%*	*4.7%*	*5.0%*	*4.8%*	*4.5%*
Cash flow from financing activities	**(1,274)**	**(2,337)**	**(1,109)**	**(1,101)**	**(1,118)**
o/w Dividends paid	(600)	(634)	(684)	(701)	(718)
o/w Net debt issued/(repaid)	(678)	(1,442)	(185)	0	0
o/w Share Repurchases	0	(176)	(240)	(400)	(400)
Net change in cash	**(467)**	**812**	**6,059**	**11,165**	**15,891**
Adj. Free cash flow to firm	**818**	**3,105**	**7,168**	**12,266**	**17,008**

Ratio Analysis	FY25A	FY26A	FY27E	FY28E	FY29E
Gross margin	35.8%	46.1%	60.8%	66.8%	69.1%
EBITDA margin	25.8%	38.6%	56.4%	64.2%	67.4%
EBIT margin	23.4%	36.5%	54.6%	62.3%	65.5%
Net profit margin	19.0%	29.0%	44.9%	51.4%	54.3%
ROE	(178.3%)	412.8%	144.0%	85.5%	59.5%
ROA	22.0%	39.3%	62.6%	57.1%	46.9%
ROCE	46.9%	73.2%	93.6%	71.9%	54.4%
SG&A/Sales	4.4%	3.4%	0.0%	0.0%	0.0%
Net debt/equity	NM	0.9	NM	NM	NM
Net debt/EBITDA	1.7	0.4	NM	NM	NM
P/E (x)	78.8	41.0	16.9	10.6	7.9
P/BV (x)	NM	64.5	14.6	6.3	3.5
EV/EBITDA (x)	63.6	31.7	13.6	8.5	6.3
Dividend Yield	-	-	-	-	-
Sales/Assets (x)	1.2	1.4	1.4	1.1	0.9
Interest cover (x)	-	-	-	-	-
Operating leverage	551.1%	320.7%	232.7%	148.5%	123.8%
Revenue y/y Growth	38.9%	34.1%	59.8%	41.0%	27.7%
EBITDA y/y Growth	125.7%	100.4%	133.6%	60.3%	34.1%
Tax rate	3.8%	15.5%	16.0%	16.5%	16.4%
Adj. Net Income y/y Growth	537.2%	104.2%	147.6%	61.1%	34.9%
EPS y/y Growth	528.3%	92.2%	142.6%	59.8%	33.4%
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

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Western Digital: Summary of Financials

Income Statement - Annual	FY25A	FY26A	FY27E	FY28E	FY29E
Revenue	**13,279**	**12,919**	**19,175**	**26,864**	**34,591**
COGS	(8,169)	(6,570)	(7,588)	(9,002)	(10,684)
Gross profit	**5,110**	**6,349**	**11,587**	**17,862**	**23,907**
SG&A	(618)	(460)	-	-	-
Adj. EBITDA	**3,527**	**5,192**	**10,496**	**16,919**	**23,079**
D&A	(451)	(375)	(507)	(710)	(914)
Adj. EBIT	**3,076**	**4,817**	**9,989**	**16,209**	**22,165**
Net Interest	-	-	-	-	-
Adj. PBT	**2,716**	**4,694**	**9,929**	**16,149**	**22,105**
Tax	(304)	(751)	(1,675)	(2,753)	(3,866)
Minority Interest	-	-	-	-	-
Adj. Net Income	**2,354**	**3,892**	**8,254**	**13,397**	**18,239**
Reported EPS	6.57	10.24	21.45	35.15	48.20
Adj. EPS	**6.57**	**10.24**	**21.45**	**35.15**	**48.20**
DPS	**-**	**-**	**-**	**-**	**-**
Payout ratio	-	-	-	-	-
Shares outstanding	359	380	385	381	378

Income Statement - Quarterly	1Q27E	2Q27E	3Q27E	4Q27E
Revenue	**4,169**	**4,499**	**4,953**	**5,555**
COGS	(1,813)	(1,866)	(1,912)	(1,998)
Gross profit	**2,356**	**2,633**	**3,041**	**3,557**
SG&A	-	-	-	-
Adj. EBITDA	**2,070**	**2,357**	**2,771**	**3,298**
D&A	(110)	(119)	(131)	(147)
Adj. EBIT	**1,960**	**2,238**	**2,640**	**3,151**
Net Interest	-	-	-	-
Adj. PBT	**1,945**	**2,223**	**2,625**	**3,136**
Tax	(331)	(373)	(441)	(530)
Minority Interest	-	-	-	-
Adj. Net Income	**1,614**	**1,850**	**2,184**	**2,606**
Reported EPS	4.17	4.80	5.69	6.80
Adj. EPS	**4.17**	**4.80**	**5.69**	**6.80**
DPS	**-**	**-**	**-**	**-**
Payout ratio	-	-	-	-
Shares outstanding	387	385	384	383

Balance Sheet & CashFlow Statement	FY25A	FY26A	FY27E	FY28E	FY29E
Cash and cash equivalents	2,114	1,579	4,760	12,646	26,050
Accounts receivable	1,486	2,026	3,004	4,066	5,163
Inventories	1,291	1,511	1,765	2,111	2,507
Other current assets	3,742	4,055	5,538	7,254	9,057
Current assets	**5,856**	**5,634**	**10,297**	**19,900**	**35,107**
PP&E	2,343	2,476	3,225	4,396	4,865
LT investments	-	-	-	-	-
Other non current assets	1,484	1,430	1,430	1,430	1,430
Total assets	**14,002**	**13,861**	**19,273**	**30,047**	**45,723**
Short term borrowings	2,226	1,052	942	942	942
Payables	1,266	1,774	2,073	2,478	2,943
Other short term liabilities	1,926	1,414	1,414	1,414	1,414
Current liabilities	**5,418**	**4,240**	**4,429**	**4,835**	**5,300**
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**	**5,186**	**5,592**	**6,057**
Shareholders' equity	5,540	8,864	14,087	24,455	39,667
Minority interests	-	-	-	-	-
Total liabilities & equity	**14,002**	**13,861**	**19,273**	**30,047**	**45,723**
Net debt/(cash)	2,597	(527)	(3,817)	(11,703)	(25,108)
Cash flow from operating activities	**1,691**	**3,929**	**7,577**	**12,796**	**17,815**
o/w Depreciation & amortization	451	375	507	710	914
o/w Changes in working capital	(1,031)	(658)	(1,184)	(1,311)	(1,338)
Cash flow from investing activities	**150**	**(429)**	**(1,256)**	**(1,880)**	**(1,384)**
o/w Capital expenditure	-	-	-	-	-
as % of sales	-	-	-	-	-
Cash flow from financing activities	**(1,612)**	**(2,776)**	**(3,140)**	**(3,029)**	**(3,027)**
o/w Dividends paid	(44)	(184)	(231)	(229)	(227)
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**	**3,181**	**7,886**	**13,404**
Adj. Free cash flow to firm	**1,691**	**3,929**	**7,577**	**12,796**	**17,815**

Ratio Analysis	FY25A	FY26A	FY27E	FY28E	FY29E
Gross margin	38.5%	49.1%	60.4%	66.5%	69.1%
EBITDA margin	26.6%	40.2%	54.7%	63.0%	66.7%
EBIT margin	23.2%	37.3%	52.1%	60.3%	64.1%
Net profit margin	17.7%	30.1%	43.0%	49.9%	52.7%
ROE	27.9%	54.0%	71.9%	69.5%	56.9%
ROA	12.4%	27.9%	49.8%	54.3%	48.1%
ROCE	18.8%	40.1%	66.6%	66.5%	55.4%
SG&A/Sales	4.7%	3.6%	-	-	-
Net debt/equity	0.5	NM	NM	NM	NM
Net debt/EBITDA	0.7	NM	NM	NM	NM
P/E (x)	50.6	32.4	15.5	9.4	6.9
P/BV (x)	22.4	14.2	9.1	5.2	3.2
EV/EBITDA (x)	36.4	24.7	12.2	7.6	5.6
Dividend Yield	-	-	-	-	-
Sales/Assets (x)	0.7	0.9	1.2	1.1	0.9
Interest cover (x)	-	-	-	-	-
Operating leverage	23593.0%	(2087.7%)	221.7%	155.3%	127.7%
Revenue y/y Growth	2.1%	(2.7%)	48.4%	40.1%	28.8%
EBITDA y/y Growth	226.6%	47.2%	102.2%	61.2%	36.4%
Tax rate	11.2%	16.0%	16.9%	17.0%	17.5%
Adj. Net Income y/y Growth	(2502.0%)	65.3%	112.1%	62.3%	36.1%
EPS y/y Growth	(2331.2%)	56.0%	109.4%	63.9%	37.1%
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