

COMPANY PROFILE

Western Digital Corporation

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COMPANY OVERVIEW

Western Digital Corporation (Western Digital or "the company") is a developer, manufacturer and provider of data storage devices and solutions. The company's product portfolio includes hard disk drives (HDDs), enterprise solid state drives (SSDs), datacenter software and system solutions, client devices, digital video hard drives, client SSDs, embedded products and wafers, hard drive content solutions and flash content solutions. The company operates in the US, Asia, and the Europe, Middle East and Africa (EMEA) regions. It is headquartered in Irvine, California.

The company reported revenues of (US Dollars) US\$19,093 million for the fiscal year ended June 2017 (FY2017), an increase of 46.9% over FY2016. In FY2017, the company's operating margin was 10.2%, compared to an operating margin of 3.6% in FY2016. In FY2017, the company recorded a net margin of 2.1%, compared to a net margin of 1.9% in FY2016.

KEY FACTS

Head Office	Western Digital Corporation 5601 Great Oaks Parkway SAN JOSE California SAN JOSE California USA
Phone	1 408 7176000
Fax	
Web Address	www.wdc.com
Revenue / turnover (USD Mn)	19,093.0
Financial Year End	June
Employees	68,000
NASDAQ Ticker	WDC

SWOT ANALYSIS

Western Digital Corporation (Western Digital or "the company") is a developer, manufacturer and provider of data storage devices and solutions. The company's strong market position proves to be a competitive advantage in terms of pricing and bargaining power with customers. The market position also equips the company with the brand image that will enable it to drive penetration of emerging and high growth products. However, demand for Western Digital's products will be negatively impacted by negative trends in the PC market.

<p>Strength</p> <p>Broad portfolio of data storage solutions Leading market position in the disk drive market Wide geographic presence</p>	<p>Weakness</p> <p>Concentrated customer base Lack of product diversification</p>
<p>Opportunity</p> <p>Cloud storage market represents growth opportunity Positive outlook for the global enterprise SSD market</p>	<p>Threat</p> <p>Fundamental changes in recording technologies Negative trends in the PC market Intense competition</p>

Strength

Broad portfolio of data storage solutions

Western Digital offers a broad line of data storage solutions to meet the evolving storage needs of its end users. The company's subsidiary HGST's HDD offerings include: high performance 10,000/15,000 revolutions per minute (RPM) drives targeting server and storage system original equipment manufacturers (OEMs); enterprise capacity drives for bulk storage applications for both hyperscale cloud customers and OEMs; the industry's only helium sealed drives featuring capacities of up to 10 terabytes (TB) to deliver low total cost of ownership, mobile drives for the notebook, personal computer (PC) and gaming markets; and a G-Technology line of branded products for professional content producers, enterprise storage software and a fully integrated active archive system.

The company's storage solutions consist of HDDs and SSDs for performance enterprise and capacity enterprise markets. Its enterprise storage offerings include performance HDDs which are optimized for performance applications providing a range of capacity and performance levels primarily for use in enterprise servers, supporting high volume on-line transactions, data analysis and other enterprise applications. Western Digital's datacenter solutions include a range of HDDs and drive configurations which provide enterprise class reliability at the lowest cost per gigabyte (GB) and are primarily for use in data storage systems, in tiered storage models and where data must be stored reliably for years. In addition, it offers serial attached SCSI (Small Computer System Interface) (SAS), peripheral component interconnect express (PCIe), and serial advanced technology attachment (SATA). The company's client

devices consist of HDDs for desktop, notebook PCs, gaming consoles, set top boxes, security surveillance systems and other computing devices. In addition, the company provides HDDs and SDDs designed for use in devices requiring high performance, reliability and capacity with various ranges of performance and attributes.

Western Digital's client solutions consist of HDDs embedded into WD-, HGST-branded external storage products and SanDisk-branded removable NAND-flash products which include cards, universal serial bus (USB) flash drives and wireless drives. The company's external HDD storage products provide storage for backup and capacity expansion in both mobile and desktop form factors. Thus, the broad portfolio of data storage solutions allows the company to provide end-to-end solutions and tap high value customers.

Leading market position in the disk drive market

Western Digital has established a strong market position in the disk drive market over the years. According to industry sources, Western Digital is the largest hard disk drive (HDD) manufacturer in the world with over 42% market share. In addition, the company has strong presence in high growth market of solid state drives (SSDs) and holds second position after Samsung. The company has strong presence in the enterprise SAS market and is expanding its presence in the peripheral component interconnect express (PCIe) and Serial Advanced Technology Attachment (SATA) markets. The company's leading market position proves to be a competitive advantage in terms of pricing and bargaining power with customers. The market position also equips the company with the brand image that will enable it to drive penetration of emerging and high growth products. Additionally, the company is exposed to favorable industry dynamics owing to its leadership position which ensures a strong customer base.

Wide geographic presence

Western Digital has an extensive geographic reach. The company's operations outside the US include manufacturing facilities in China, Japan, Malaysia, the Philippines, and Thailand; as well as sales offices throughout the Americas, Asia Pacific, Europe and the Middle East. The company's wide geographic presence has enabled it to maintain a balanced revenue stream in terms of geography. In FY2016, the US, the company's largest geographic market, accounted for 28.1% of the total revenues followed by China (18.6%), Asia (excluding China) (30.7%), Europe, Middle East and Africa (EMEA) (20.5%), and other regions (2.1%). The company's wide geographic reach enables it to mitigate country specific risks.

Weakness

Concentrated customer base

The company is dependent on few customers for a significant portion of its revenues. In FY2016, Western Digital generated 43% of its total revenues from the top 10 customers. These customers have a variety of suppliers to choose from and therefore can make substantial demands on the company, including demands on product pricing and on contractual terms, which often results in the allocation of risk to the company as the supplier. Although the company has strong relationships with many of its customers, if any of the key customers were to significantly reduce their purchases in such a scenario, Western Digital's results of operations would be adversely impacted. Additionally, consolidation among the

company's customer base generally entails risks to its business. If a significant transaction involving any of its key customers results in the loss of or reduction in purchases by these key customers, it could have a materially adverse impact on the company's business, results of operations, financial condition and prospects.

Lack of product diversification

Western Digital lacks diversified operations compared to its major competitors such as Samsung, and Toshiba. While, the company's operations are focused across various categories of storage products market, its competitors have diversified portfolio of offerings beyond the storage products. For instance, Samsung's portfolio of offerings include digital media and telecommunication products, consumer home appliances, and storage, memory, integrated circuits, liquid-crystal-display (LCD) technologies, notebook PCs and desktop monitor products. Similarly, Toshiba product portfolio includes a wide range of energy-related equipment, transportation systems, building facilities, semiconductors, and visual products, among others. Diversified revenue sources decrease the business risk of these competitors. Lack of diversification increases Western Digital's business risk and makes it vulnerable to the uncertainties in the storage market.

Opportunity

Cloud storage market represents growth opportunity

The global cloud storage market is expected to grow rapidly and represent significant growth opportunities. Industry estimates suggest that the global cloud storage market is expected to grow from \$23.7 billion in 2016 to \$74.9 billion by 2021, representing a CAGR of 25.8% from 2016 to 2021. The market is expected to be driven by the increasing adoption of hybrid cloud storage, growing need for enterprise mobility, and need for easy deployment of cloud storage solutions. The demand for this market is also being driven by increasing adoption of cloud storage gateway and managed services.

The company is keen to benefit from the rapidly growing end market. Western Digital offers a wide portfolio of personal cloud storage solutions. The company has established a leading position in supplying performance HDDs, multi-platter high capacity HDDs and SSDs to address the cloud storage needs of enterprises. In addition, the company offers WD My Cloud solutions that offers public cloud storage services.

The company's established presence in the cloud storage market and positive outlook for the market would provide Western Digital with significant growth opportunities to expand its market share.

Positive outlook for the global enterprise SSD market

The worldwide demand for storage devices has been increasing over the past few years. According to industry estimates, the global solid-state drive (SSD) market is expected to grow at a CAGR of over 40.7% during 2015-22 periods, and reach \$229.5 billion by 2022. APAC is expected to continue to lead the enterprise SSD market due to the growing need to manufacture high-performance mobile devices and enterprise applications.

Western Digital is well poised to benefit from the growing enterprise SSDs market. The company offers SSDs for performance enterprise and capacity enterprise markets. In addition, over the years, the company made a series of acquisitions, which enhanced the company's position in the enterprise SSD market. Most recent being the acquisition of SanDisk. In addition, the company has development agreement with Intel on SAS and SSDs.

The company's growing presence in the enterprise SSD market and strong market position would drive significant revenue growth in the future.

Threat

Fundamental changes in recording technologies

The data storage industry in which Western Digital operates is subject to rapid technological changes. The current technological advances in the industry include current-perpendicular-to-plane giant magnetoresistance, shingle magnetic recording, heat assisted magnetic recording, patterned magnetic media and advanced signal processing. In addition, advances in magnetic, or other data storage technologies could result in competitive products for storing digital content with better performance or lower cost per unit of capacity than the company's products. Further, in embedded solutions, the introduction of mobile storage standard referred to as Universal Flash Storage (UFS) and in the datacenter market the introduction of a non-volatile memory express (NVMe) could be substitute for the company's PCIe solutions. The continuous adaptation to the changing technology leads to the increase in the research and development costs. It also renders inventory obsolete. The inability of the company to adapt to the technological changes will affect the ability of the company to meet the customer demands. It will also lead to the decline in the customer base which may adversely impact the financial position and the market share of the company.

Negative trends in the PC market

The global PC market has been declining over the past few years. Moreover, this trend is expected to continue in future. In near term, the PC market will continue to witness lackluster growth and increased substitution of tablets will further depress the growth rates. According to MarketLine, the global PC market is forecasted to decline and reach \$126.3 billion by 2020 from \$133.6 billion in 2016, representing a compound annual rate of change (CARC) of 1% during the forecast period. The emerging markets are also expected to follow the declining trend.

Western Digital derives substantial portion of its revenues from the PC market, which indicates that the company is tied to slower growth areas. Demand for Western Digital's products will be negatively impacted by such negative trends in the PC market.

Intense competition

The data storage industry is highly competitive with HDD and SSD suppliers. The factors contributing to the competition include product quality and reliability, storage capacity, unit price, product performance,

production volume capabilities, delivery capability, leadership in time-to-market, time-to-volume and time-to-quality, service and support and ease of doing business. Also the technological advances in the magnetic, optical or other data storage technologies may render new products that intensify the competition for the existing products.

Western Digital competes with manufacturers of HDD for client compute, client non-compute and enterprise applications and manufacturers of SSD. In the SSD segment, the company competes with a wide range of manufacturers, from small startup companies to multinational corporations, including Intel, Micron Technology, Samsung Electronics, Seagate Technology, SK Hynix and Toshiba. The intense competitive environment introduces pricing pressures which will have an impact on the financial position of the company. Also, intense competitive environment may have an adverse effect on the market share of the company.

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