

Western Digital Corporation (WDC)

FQ1 2027 Earnings Review | Period ended October 2, 2026 | Reported October 22, 2026

Near-Term Earnings Outlook Strengthened; the Case Rests on Pricing Durability

1 KEY RESULTS VS. CONSENSUS			
Metric	Reported	Consensus	vs. Cons.
Revenue	\$4.381B	\$4.15B	+5.6%
Diluted EPS, Adjusted	\$4.64	\$4.10	+13.2%
COMPANY METRICS			
Adjusted Gross Margin	58.1%	55.9%	+2.2 pp
Adjusted Operating Expenses	\$391M	\$395.8M	-1.2%
Free Cash Flow	\$1.377B	\$1.500B	-8.2%

2 GUIDANCE AND OUTLOOK
Fiscal Q2 2027 guidance was issued above consensus across the full range: revenue of \$5.0 billion to \$5.2 billion (estimate \$4.59 billion), adjusted gross margin of 60% to 61% (estimate 57.8%), adjusted EPS of \$5.60 to \$6.00 (estimate \$4.82), and operating expenses of \$400 million to \$410 million. At the midpoints, revenue is \$5.1 billion, gross margin 60.5%, and EPS \$5.80. Capital expenditure is expected to run modestly above the 4% to 6% of revenue framework over the next two years.

3 | EARNINGS ANALYSIS

PRICING, NOT VOLUME, DROVE THE BEAT. Revenue of \$4.381 billion rose 55.5% year over year, but exabyte shipments grew only 22%; blended selling price per terabyte rose 28%, up from 18% in the prior quarter. Adjusted EPS of \$4.64 beat consensus by 13.2% on a 5.6% revenue beat, because gross margin of 58.1% exceeded the 55.9% estimate by 220 basis points and operating expenses rose only \$10 million year over year, converting about 83% of incremental revenue into operating profit.

MARGIN EXPANSION RESTS ON PRICE REALIZATION. Management said there is definitely further room for price-per-terabyte increases over the next three to four quarters, through contractual increases, repricing at renewal, and uncontracted volumes. Cost per terabyte, however, improved only about 4% to 5%, below the roughly 10% long-term objective, as DRAM, NAND, and supply-chain inflation offset value engineering. Q2 guidance implies 60.5% gross margin and about 52.6% operating margin at the midpoints; the durable variable is the spread between price realization and unit-cost improvement.

CASH CONVERSION MOVED THE OTHER WAY. Free cash flow of \$1.377 billion rose about 130% year over year but missed the \$1.5 billion consensus by about 8.2%; conversion of adjusted net income fell from 92.7% to 77.4% as receivables absorbed \$206 million and inventories \$269 million, and inventory rose 17.9% to \$1.781 billion. Capital expenditure reached \$227 million, 5.2% of revenue, before the guided period of above-framework spending, and long-range demand visibility through 2030 and 2031 is explicitly not covered by LTA pricing.

DURABILITY, NOT DEMAND, IS THE QUESTION. The stance is constructive on earnings revisions and cautious on valuation extrapolation: existing exposure is supported, but an unconditional purchase is not established by the beat alone. Execution markers are concrete: the 40TB ePMR platform reaches about 30% of nearline exabytes in fiscal Q2 and 50% in fiscal Q3, and HAMR qualifications with two hyperscalers complete in calendar Q1 2027. The central question is whether current pricing is a durable improvement in industry economics or an exceptional scarcity premium.

4 | KEY READ-THROUGHS

SEAGATE BENEFITS FROM INDUSTRY PRICING, NOT MERELY ANOTHER POSITIVE AI DEMAND SIGNAL
Seagate Technology Holdings (STX) | Positive | High relevance to consolidated earnings
 Western Digital's blended selling price per terabyte rose 28% year over year, up from 18% in the prior quarter, across nearline, client, and consumer products, through contractual increases, repricing as LTAs expire, and stronger pricing on uncontracted volumes. Management sees further room for increases over the next three to four quarters. Seagate sells into the same supply-constrained nearline market, so pricing gains can lift gross profit without proportionate cost growth.

DENSITY-LED SUPPLY GROWTH UNDERMINES PERMANENT-SCARCITY VALUATIONS
Seagate Technology Holdings (STX), Western Digital Corporation (WDC) | Negative | Potentially high for equity valuation, but limited immediate earnings impact
 Unchanged drive-unit capacity does not mean unchanged storage supply: moving from 32TB to 40TB raises maximum capacity per drive by 25%, and from 44TB to 55TB by another 25%. Exabyte supply growth is expected to accelerate over the next six to eight quarters. The CFO stated that the further out demand extends, the less of it is covered under LTA pricing, so today's pricing growth is not contracted, cycle-insensitive earnings.

HOYA HAS A TECHNOLOGY-CONTENT TAILWIND EVEN WITHOUT DRIVE-UNIT EXPANSION
HOYA Corporation (7741) | Positive | High for the HDD substrate business; moderate at the diversified group level
 HOYA supplies the glass substrates for HDD media, supported by the HAMR ramp, increased media investment, and a roadmap toward higher platter counts: second-generation HAMR at 5TB per platter on an 11-platter platform, with up to 14 platters longer term. More platters raise substrate content per drive even if drive-unit production is unchanged; an 11-to-14 platter move lifts substrate units per drive by about 27%.

NITTO BENEFITS FROM MORE HEADS PER DRIVE
Nitto Denko Corporation (6988), TDK Corporation (6762) | Positive | Moderate to high within the relevant component businesses
 Higher platter counts require additional heads and suspension content within the same number of drives. Nitto's CISFLEX circuitry is integrated with HDD suspensions, and TDK participates in suspension assemblies, so content per drive can grow without new drive-unit factories. The qualification is TDK's merchant recording-head business: Western Digital said its high-capacity leading-edge platforms use internally manufactured heads, so internal head investment is not incremental merchant-head revenue.