

HDD Shipments Off Slightly in CQ2 to 133.40 Million – Weak PC Market to Dampen 2H '13

Despite 2% unit decrease, richer capacity mix tempers exabyte decline to 0.5% or 108.62 exabytes shipped

NOTES: "Nearline" HDDs are included in the enterprise segment. Adjustments to shipments and market shares in this document may be made in the final Quarterly Update.



For the second straight quarter, Seagate continued its tactic to shift its business towards the more lucrative enterprise segment, giving up share in the lower margin, lower ASP client HDD space. As a result, Seagate managed to raise ASPs by \$1 in CQ2 '13 to \$64. The company shipped 53.89 million HDDs in total – a 3% sequential drop – while posting good gains in the enterprise segment, notably from strong demand in the nearline, or business critical sub-category. From the prior quarter Seagate's nearline shipments jumped over 15% to 4.50 million units. Traditional enterprise, or mission critical as designated by the company also increased 2% from CQ1 '13. Seagate's gross margins lifted 50 basis points from the prior quarter, reaching 27.4%, despite the share and revenue decline.



After gaining measurable share in CQ1 '13, Toshiba's unit shipment slipped by 2.2%, nearly matching the overall TAM decline and thus maintaining its market share that it gained in the prior quarter. In CQ2 '13, Toshiba's units totaled 19.61 million. While the company gave up sequential units in all segments, it managed to maintain minimal declines in both its desktop and mobile categories. A 0.20 million sequential decline in enterprise represented a fall of nearly 16% from the prior quarter, but fluctuations in Toshiba's enterprise business has been witnessed over many quarters and may be due to the lumpy demand nature of its major enterprise customers.



As the largest HDD supplier in the industry running two separate subsidiaries – WD and HGST – WDC gained a small amount of share in CQ2 '13 as its sequential unit decline was limited to only 1% with 59.90 million HDDs shipped. Similar to its closest rival, WDC benefitted from strong nearline demand growth with units increasing more than 13% sequentially to 4.66 million units. ASP's dipped by \$1 from CQ1 '13 to \$60 in CQ2 '13; however, cost controls enabled the company to keep gross margins flat from the prior quarter at 28.2%.

HDD Supplier Summary, CQ2 '13, Units (M)

	Consumer HDDs				Desktop HDDs				Mobile HDDs				Enterprise HDDs				Total HDDs			
	3.5"	2.5"	<=1.8"	Total	3.5"	2.5"	<=1.8"	Total	3.5"	2.5"	<=1.8"	Total	3.5"	2.5"	<=1.8"	Total	3.5"	2.5"	<=1.8"	Total
Seagate CQ2 '13	5.71	0.40	---	6.11	20.09	---	---	20.09	---	19.47	---	19.47	5.43	2.79	---	8.22	31.23	22.66	---	53.89
CQ1 '13	5.25	0.58	---	5.83	20.96	---	---	20.96	---	21.37	---	21.37	4.05	3.49	---	7.54	30.26	25.44	---	55.70
Change QTQ	8.8%	-31.0%	---	4.8%	-4.2%	---	---	-4.2%	---	-8.9%	---	-8.9%	34.1%	-20.1%	---	9.0%	3.2%	-10.9%	---	-3.2%
CQ2 Share	64.2%	7.1%	---	42.1%	50.5%	---	---	50.5%	---	31.4%	---	31.4%	48.6%	46.4%	---	47.8%	52.2%	30.8%	---	40.4%
Toshiba CQ2 '13	0.21	1.63	0.02	1.86	2.73	---	---	2.73	---	13.95	---	13.95	0.16	0.91	---	1.07	3.10	16.49	0.02	19.61
CQ1 '13	0.17	1.64	0.23	2.04	2.74	---	---	2.74	---	14.01	---	14.01	0.33	0.94	---	1.27	3.24	16.59	0.23	20.06
Change QTQ	23.5%	-0.6%	-91.3%	-8.8%	-0.4%	---	---	-0.4%	---	-0.4%	---	-0.4%	-51.5%	-3.2%	---	-15.7%	-4.3%	-0.6%	-91.3%	-2.2%
CQ2 Share	2.4%	29.1%	100.0%	12.8%	6.9%	---	---	6.9%	---	22.5%	---	22.5%	1.4%	15.1%	---	6.2%	5.2%	22.4%	100.0%	14.7%
WDC CQ2 '13	2.98	3.57	---	6.55	16.95	---	---	16.95	---	28.51	---	28.51	5.58	2.31	---	7.89	25.51	34.39	---	59.90
CQ1 '13	3.33	3.20	---	6.53	19.66	---	---	19.66	---	26.77	---	26.77	5.10	2.11	---	7.21	28.09	32.08	---	60.17
Change QTQ	-10.5%	11.6%	---	0.3%	-13.8%	---	---	-13.8%	---	6.5%	---	6.5%	9.4%	9.5%	---	9.4%	-9.2%	7.2%	---	-0.4%
CQ2 Share	33.5%	63.8%	---	45.1%	42.6%	---	---	42.6%	---	46.0%	---	46.0%	50.0%	38.4%	---	45.9%	42.6%	46.8%	---	44.9%
Total CQ2 '13	8.90	5.60	0.02	14.52	39.77	---	---	39.77	---	61.93	---	61.93	11.17	6.01	---	17.18	59.84	73.54	0.02	133.40
Total CQ1 '13	8.75	5.42	0.23	14.40	43.36	---	---	43.36	---	62.15	---	62.15	9.48	6.54	---	16.02	61.59	74.11	0.23	135.93
Change QTQ	1.7%	3.3%	-91.3%	0.8%	-8.3%	---	---	-8.3%	---	-0.4%	---	-0.4%	17.8%	-8.1%	---	7.2%	-2.8%	-0.8%	-91.3%	-1.9%

HDD Shipments Application Matrix, CQ2 '13

- Mobile HDDs:** Mobile HDD shipments dipped only slightly from the prior quarter, declining 0.4% to 61.93 million in CQ2 '13. For the quarter, the small decline in sequential shipments was indicative of preparations for the release of new Intel Haswell-based notebook PCs and some early builds for CQ3 back-to-school demand. Notebook PC demand, however, remains very muted and even with second half seasonal increases, the 2013 PC market is projected to decline from the prior year by more than 8%. Average capacity remained nearly flat from the prior quarter at 610 GB, resulting in an exabyte decline that matches the modest unit drop.
- Desktop HDDs:** Desktop HDDs were the weakest segment in CQ2 '13, dropping 8.3% from the prior quarter. With seasonal weakness in both desktop PCs and external HDDs, average capacities declined by 15 GB to 928 GB and exabytes fell by 9.7% to 36.91 exabytes. Even though PC demand is suppressed in 2013, corporate budget clearing activities toward the end of the year along with holiday sales of external HDDs should boost desktop HDD shipments during 2H '13.
- Enterprise HDDs:** The enterprise HDD demand in CQ2 was up sharply due to strong demand for nearline HDDs. Hyperscale companies expanding and deploying new datacenters have fueled demand for capacity optimized HDDs and for the quarter, nearline HDD units jumped over 1 million units, or over 12%, from CQ1 to end at 9.38 million. Traditional, or performance-optimized, enterprise HDDs also moved slightly higher sequentially, rising from 7.68 million in CQ1 '13 to 7.80 million in CQ2 '13. Although nearline demand fluctuates depending on the timing of datacenter build-outs, the increasing number of large hyperscale players has apparently smoothed out the demand spikes, driving nearly consistent quarter-to-quarter growth since late last year. Capacity shipped also grew smartly with the unit increase, jumping nearly 14% to 23.55 exabytes.
- Consumer Electronics (CE) HDDs:** The vast majority of CE HDDs are consumed by xVRs or set-top box recorders – a market that is usually not affected as strongly by seasonal buying patterns that drive client applications. Total CE shipments ticked up a modest 0.8% to 14.52 million units, with increases in both 3.5" and 2.5" form factors. Late in CQ2 '13, both Microsoft and Sony announced new gaming consoles that will ship with 500 GB 2.5" CE HDDs. Even though the gaming market has been transformed by mobile devices in recent years, the release of new console platforms this year will drive measurable increases in the second of the year for 2.5" CE HDD units. Average capacity increases for xVRs drove an 8% increase in capacity shipped, rising to 10.36 exabytes.

	Consumer HDDs			Desktop HDDs			Mobile HDDs			Enterprise HDDs			Total HDDs		
	CQ2'12	CQ1'13	CQ2'13	CQ2'12	CQ1'13	CQ2'13	CQ2'12	CQ1'13	CQ2'13	CQ2'12	CQ1'13	CQ2'13	CQ2'12	CQ1'13	CQ2'13
3.5" Units	10.73	8.75	8.90	46.71	43.36	39.77	---	---	---	11.75	9.48	11.17	69.19	61.59	59.84
Revenue (B\$)	\$0.51	\$0.43	\$0.44	\$2.42	\$2.20	\$1.93	---	---	---	\$1.90	\$1.51	\$1.54	\$4.83	\$4.15	\$3.90
Avg. price	\$47.12	\$49.69	\$49.00	\$51.88	\$50.77	\$48.41	---	---	---	\$161.51	\$159.45	\$137.62	---	---	---
Avg. capacity	600	911	960	786	943	928	---	---	---	1,423	1,842	1,849	---	---	---
Main GB/disk	500	667	1,000	500	667	1,000	---	---	---	146	667	667	---	---	---
Leading GB/disk	1,000	1,000	1,000	1,000	1,000	1,000	---	---	---	300	800	800	---	---	---
Exabytes	6.37	7.97	8.55	35.94	40.88	36.91	---	---	---	16.58	17.39	20.66	58.89	66.24	66.11
2.5" Units	9.13	5.42	5.60	---	---	---	72.00	62.15	61.93	6.08	6.54	6.01	87.21	74.11	73.54
Revenue (B\$)	\$0.42	\$0.22	\$0.22	---	---	---	\$3.95	\$2.99	\$2.94	\$1.03	\$1.04	\$0.83	\$5.40	\$4.25	\$3.98
Avg. price	\$45.54	\$40.13	\$38.42	---	---	---	\$54.87	\$48.07	\$47.44	\$169.64	\$159.49	\$138.33	---	---	---
Avg. capacity	317	289	323	---	---	---	509	612	610	407	512	482	---	---	---
Main GB/disk	320	500	500	---	---	---	320	500	500	146	200	300	---	---	---
Leading GB/disk	500	500	500	---	---	---	500	500	500	300	300	300	---	---	---
Exabytes	2.90	1.57	1.81	---	---	---	36.58	38.01	37.80	2.47	3.35	2.90	41.95	42.93	42.50
<= 1.8" Units	0.63	0.23	0.02	---	---	---	---	---	---	---	---	---	0.63	0.23	0.02
Revenue (B\$)	\$0.04	\$0.02	\$0.00	---	---	---	---	---	---	---	---	---	\$0.04	\$0.02	\$0.00
Avg. price	\$67.71	\$66.00	\$65.00	---	---	---	---	---	---	---	---	---	---	---	---
Avg. capacity	159	160	160	---	---	---	---	---	---	---	---	---	---	---	---
Main GB/disk	160	160	160	---	---	---	---	---	---	---	---	---	---	---	---
Leading GB/disk	220	220	220	---	---	---	---	---	---	---	---	---	---	---	---
Exabytes	0.10	0.04	0.00	---	---	---	---	---	---	---	---	---	0.10	0.04	0.00
Total Units	20.49	14.40	14.52	46.71	43.36	39.77	72.00	62.15	61.93	17.83	16.02	17.18	157.03	135.93	133.40
Exabytes	9.37	9.58	10.36	35.94	40.88	36.91	36.58	38.01	37.80	19.05	20.74	23.55	100.94	109.20	108.62
Revenue (B\$)	\$0.97	\$0.67	\$0.65	\$2.42	\$2.20	\$1.93	\$3.95	\$2.99	\$2.94	\$2.93	\$2.55	\$2.37	\$10.27	\$8.41	\$7.88