



HIDEYOSHI

CAPITAL

SPECIAL SITUATIONS & CATALYST INVESTING

SEAGATE TECHNOLOGY

NASDAQ : STX

MASS-CAPACITY DATA STORAGE · HDD · SSD

Sold-out nearline supply through 2027 - priced after the guide was set

LONG

Recommendation

Long STX

Ref \$787.50 · ~\$176B mkt cap (224M sh)

**\$1,125 or
+43%**

Base target · 12-mo intrinsic

-36% / +103%

Downside / upside case

Seagate is the first US storage name to report into a market where nearline HDD capacity is sold out through calendar 2027 and trade pricing rose ~10% QoQ after guidance was set. The July 28 print is both a beat candidate and the read-through catalyst for the entire memory/storage stack.

As of 07/17/26 close

Contracted 2027 volumes with strong ASP upside

THE ALLOCATIONS

FQ3 exabytes shipped **199 EB**

+39% YoY · ~90% to data center

Data center revenue **\$2.5B**

+55% YoY

Non-GAAP gross margin **47.0%**

vs 35.6% a year ago

Free cash flow **\$953M**

decade high

Nearline allocation **CY2027**

sold out · 2028 in discussion

Mid-20s% industry EB CAGR · **\$/TB flat-to-up**

1 Guidance was set before the June-quarter price surge

FQ4 guidance (\$3.45B / \$5.00 EPS) was issued April 28. HDD trade prices then rose ~10% QoQ in Q2-26 - prices are up ~50% since Sept-25. The CFO is “selling all the exabytes we produce” with \$/TB policy of flat-to-up. Pricing set after April flows almost entirely to gross margin.

2 Sold out through 2027 = visibility no HDD cycle has ever had

Nearline exabytes largely allocated through CY2027; build-to-order through FY27; 2028 in discussion. Seven hyperscalers locked multi-year supply. Strong contracted base plus additional hyperscaler accreditation of HAMR drives with the price on 2027+ volumes, negotiated at a premium due to extensive shortages.

3 HAMR is a margin machine

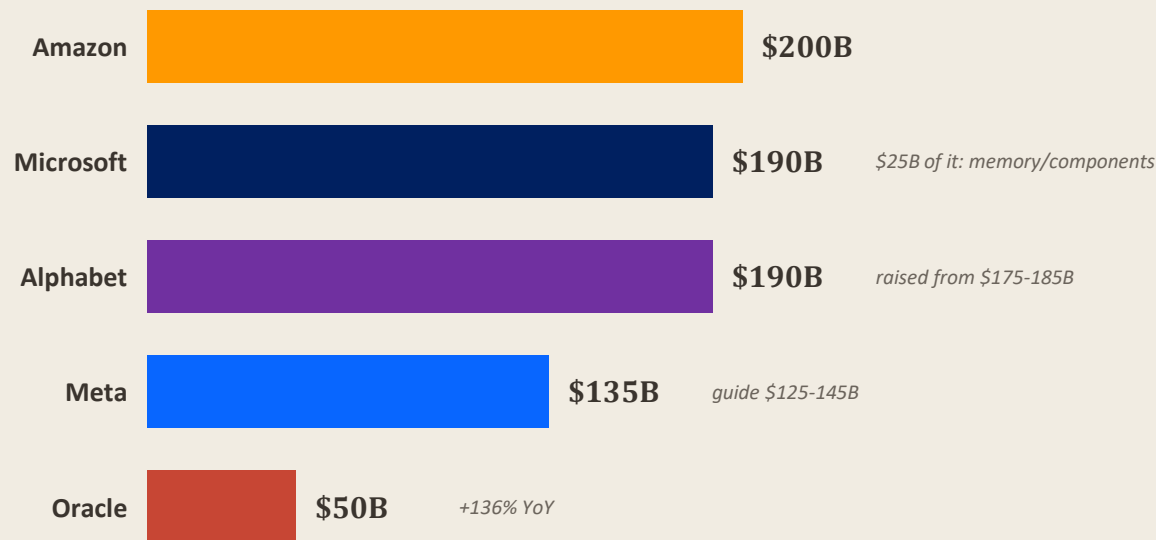
Non-GAAP GM went 36.2% → 47.0% in four quarters. Mozaic 4 (44TB) shipping, qualified with the two largest CSPs; Mozaic 5 (50TB) expected to qualify in late 2027. Mix shift to 40TB+ is the cost lever; bull models envision 55-60% operating margins in a two-player oligopoly. Both players are slow to increase CAPEX as there is a high barrier to entry.

Variant view: the market trades STX as high-beta memory ($\beta \sim 2.1$; -10% on July 2 SK Hynix / AI-glut headlines). It is a sold-out oligopolist with contracted volumes and rising price - the July pullback repriced the multiple, not the earnings. The FQ4 print re-anchors the market to the order book which is exceptionally timed given the strong selloff.



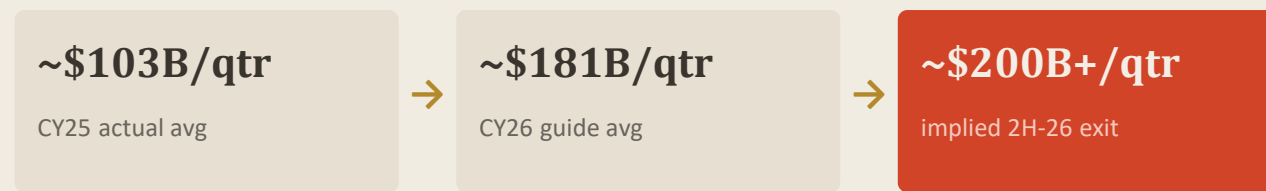
The buyers: a \$715B capex spend with additional upside

C Y 2 0 2 6 C A P E X G U I D A N C E



Big-4 guide to ~\$715B (FT-compiled; +74% vs \$410B in 2025); Oracle adds ~\$50B. Seven hyperscalers took the entire 2026 nearline HDD lot on multi-year contracts.

Q U A R T E R L Y R U N - R A T E - T H E R A M P A H E A D



Street models \$1T+ combined for CY2027 - the September quarter is the first full quarter at the raised guides.

+74.4% YoY spend with trillions in 2027 upside

Big-4 2026 capex vs \$410B in 2025. Goldman models \$5.3T cumulative 2025-2030 spend.

Chips, Chips, and Chips

30% of data center spend is now memory - 4× its 2023 share of the hyperscaler bill of materials.

\$25B of Microsoft's guide

attributed by the CFO to rising memory-chip and component costs; MSFT expects to stay capacity-constrained across GPU, CPU and storage through 2026.

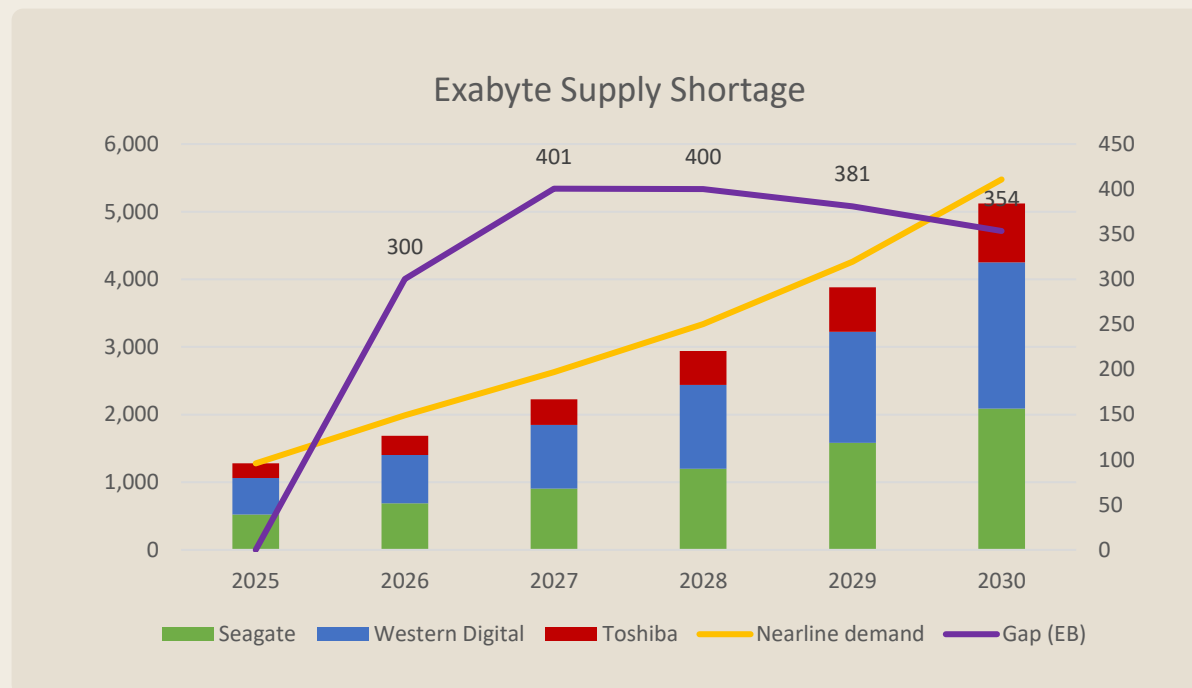
\$627B / \$460B

Microsoft commercial RPO / Google Cloud backlog - contracted demand that must be stored. Backlog has steadily increased QoQ

Storage stopped being a rounding error in the AI bill of materials - it is a named line item in hyperscaler guidance, and Seagate is one of three companies that supply it at scale.



Supply & demand, and growing ASP's



WHY THE GAP PERSISTS

Supply constraint by design

With only 30-40% Exabyte growth, any additional expansion would come from greenfield capacity which is currently not being built as CAPEX spend is 4-6% of revenue

Density compounds growth and margins

HAMR density is pushing from 44TB towards 50TB which helps supply without adding units. HDD lead times are +52 weeks

Growing Demand Visibility

Hyperscalers have demand for 100% of exabytes providing unparalleled earnings visibility. Larger AI models are requiring more storage, and continued AI adoption pushes growth estimates upwards with NAND shortages increasing overall storage crunch

MARGIN EXPANSION FROM DENSITY & DEMAND

~+50%

HDD prices, past 6 months

+10% QoQ

trade prices in Q2-26 (DigiTimes)

\$25-30/Terabyte

Supply Side Estimates

~2x Pricing on ASP's

\$14.3-14.9/T current ASP

Why this matters: Supply growth is contractually and physically capped while demand compounds faster, the gap is shown in the YoY Exabyte shortage. 2025 Capacity share is (42% WDC, 41% STX, and 17% Toshiba); supply growth is roughly 32%, but bit density can cause extra margin expansion beyond the supply & demand shortage.



The beat math: what July 28 can print

Scenario	Revenue	Non-GAAP EPS	Logic
Guide / consensus	\$3.45B / \$3.51B	\$5.00 / \$5.13	Consensus revised +12% in 3 months but still hugs the April guide
Base beat	\$3.60-3.66B	\$5.50-5.70 (+8-11%)	NG GM 51-52% - merely matching what WDC printed (50.5%) and guides (51-52%) for the same CQ
Bull beat	\$3.70-3.75B	\$5.90-6.15 (+15-20%)	FQ3-magnitude repeat: GM ~53% as spot pricing flows + tax below 16% (FQ3 ran 13.4%)

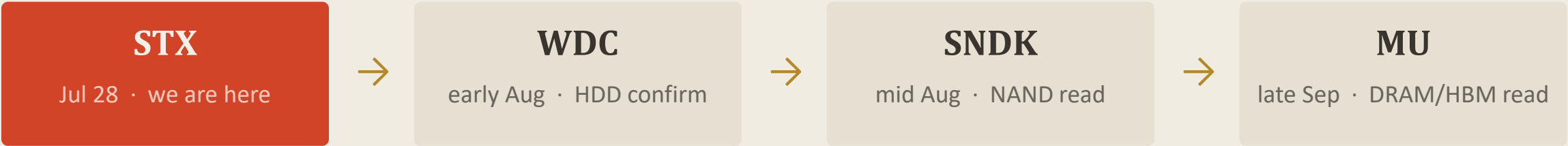
Why the base case is the conservative case: Seagate reported FQ3 at 47% gross margin which is lagging the price increases. The guide moves itself to ~49-51%, and the base case only accounts for an STX margin of 50.5%.

Bull case is to be expected with margin outperformance from data center customers expected to raise GM to +53%.

Why the guidance is the pricing payload: the April FQ3 topline beat of 5.4% and 17.8% EPS growth caused a stock run of 18% after hours and +60% over the next 49 days.

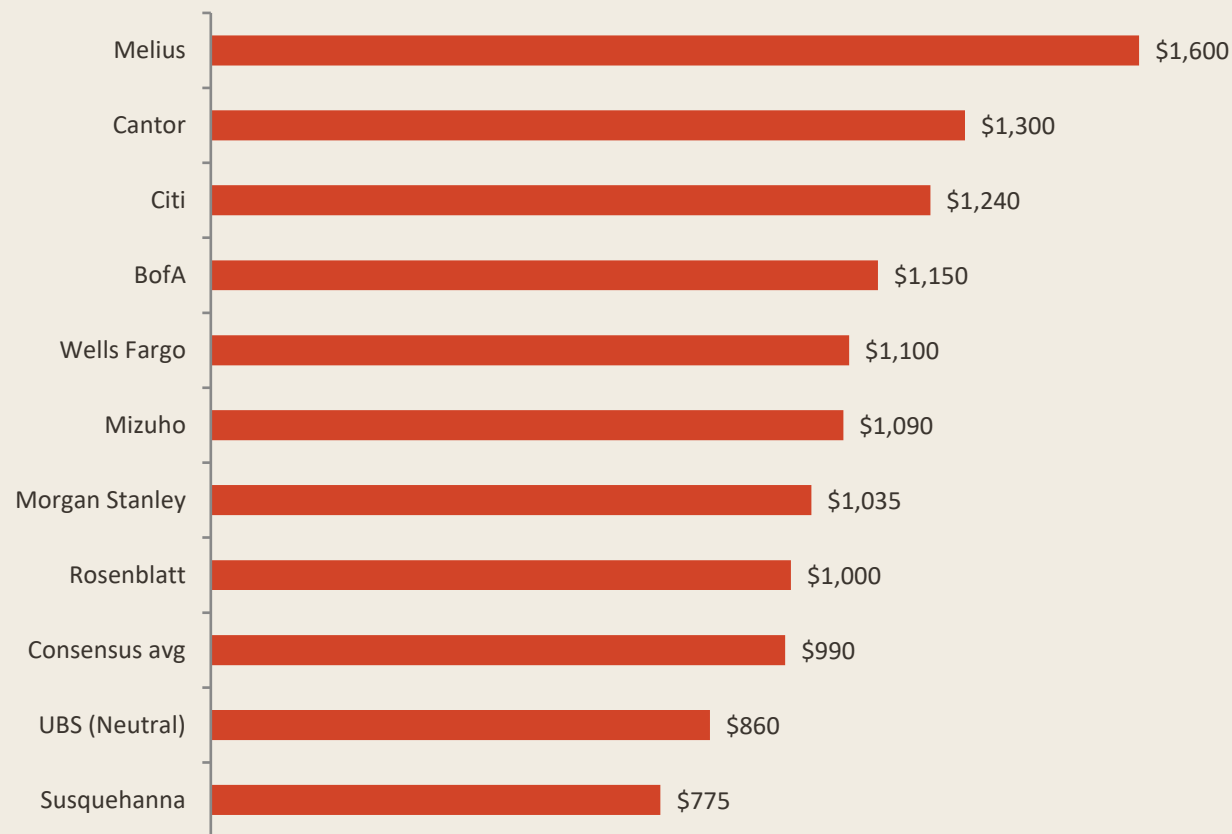
With the market repricing the earnings curve, the July 28th print bring a similar thesis with STX down ~30% from it's ATH. Offering a similar catalyst opportunity as the Street waits for the 2027 pricing story.

FIRST DOMINO: THE READ-THROUGH SEQUENCE



The Street has already published our targets

12 - MONTH PRICE TARGETS VS. \$788 REFERENCE



CAPIQ CONSENSUS (MEAN)

FY (Jun)	Revenue	EBITDA mgn	EPS	P/E @ \$787.50
FY26E	\$12.1B	36.8%	\$14.89	52.9x
FY27E	\$17.0B	50.9%	\$28.48	27.7x
FY28E	\$22.3B	60.4%	\$45.14	17.4x

Consensus revenue +41% (FY27E) then +32% (FY28E); TEV/EBITDA ~21x → ~13x at \$787.50. What April research called the bull case (\$45 EPS) is now the Street's FY28 mean.

Shrinking denominator (CAPIQ actuals)

224M shares out (FQ3 reported); ~231M diluted per guide. Total debt ~\$3.87B vs \$1.15B cash (net debt ~\$2.7B); ~\$1.6B gross debt retired over the trailing four quarters; buyback pivot signaled. Expecting additional debt repayment with abundance of FCF.

Even the dissent capitulated on price

UBS raised \$545 → \$860 on Jul 13 while keeping Neutral; Citi went to \$1,240 the same day. Every Buy/Overweight target now sits 27%+ above spot; the two Neutral holdouts (Susquehanna \$775, UBS \$860) bracket it.

We are not underwriting anything the sell side hasn't already published - we are underwriting that the July 28 print forces the market to price it.



Scenarios: built from capex, exabytes, and ASPs - not analyst targets

Driver	DOWNSIDE	BASE	UPSIDE
Hyperscaler capex backdrop	2027 plans cut; digestion headlines	\$715B CY26 lands; ~\$1T CY27 (Street)	CY27 overshoots \$1T + sovereign AI
Nearline exabyte growth	+20%/yr	+25%/yr (STX CFO & WDC view)	+28%/yr
Blended \$/TB (2027 repricing)	Flat-to-down	+10-12%/yr step-up	+15%/yr locked multi-year
→ FY28 revenue	~\$17.5B	~\$22.3B (= consensus)	~\$25B
→ NG gross margin exit	~46%	~55%	58-60%
→ FY28 EPS × multiple	~\$24 × 21x	~\$45 × 25x	~\$50 × 32x
Per share	\$500	\$1,125	\$1,600
Return from \$787.50	-36%	+43%	+103%

Model Background: revenue = FY26 base (\$12.1B) × exabyte growth × blended ASP; margin from HAMR mix + repricing (WDC already prints 50.5% GM and guides 51-52%); common assumptions ~\$1.2B opex, 15-16% tax, ~231M diluted shares. The Street's post-Jul-13 ladder (\$775 Susquehanna low → \$1,600 Melius high) brackets our base and upside - our downside is deliberately below the lowest target on the Street.



Position expression: Dec-2026 \$800 call

THE STRUCTURE

Long STX 18-Dec-2026 \$800 call

Entry \$198.90 / \$19,890 per contract (ref \$787.50)

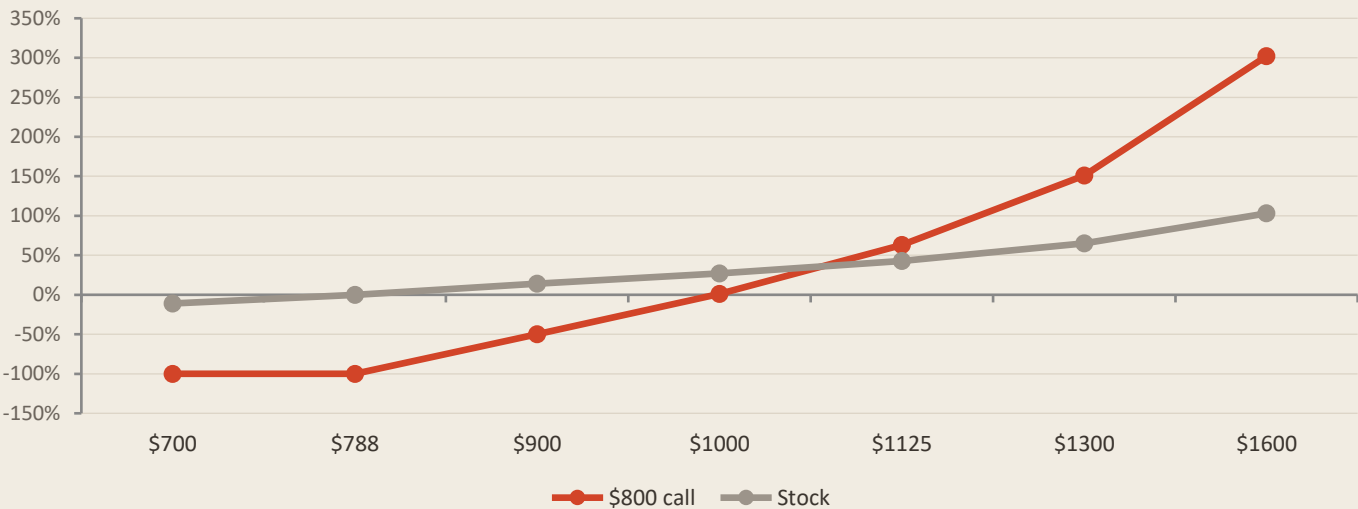
Composition \$0 intrinsic + \$198.90 extrinsic (1.6% OTM)

Breakeven \$998.90 at expiry (+26.8%) · PoP 37.1%

Max risk / Delta premium (-100%) / initial $\Delta \sim 0.63$ · IV $\sim 104\%$

Catalysts map FQ4 print · read-through prints · FQ1 · 2027 pricing news · buyback

P & L A T E X P I R Y V S S T O C K (%)



\$1,125 base target reached by	DTE	Call value: flat IV / -25 vol	Return*	Flat-stock bleed
28-Jul-26 · FQ4 print	141	\$434 / \$389	+118% / +96%	-4%
30-Sep-26 · post read-throughs	79	\$402 / \$370	+102% / +86%	-30%
16-Nov-26 · FQ1 window	32	\$348 / \$336	+75% / +69%	-58%
18-Dec-26 · expiry	0	\$323	+62%	-100%

Why the call: breakeven (\$998.90) sits below Rosenblatt's \$1,000 and below all six Buy/Overweight targets (\$1,100-\$1,600), though above the two Neutral holdouts; upside case (\$1,600) pays $\sim +302\%$ regardless of the vol path. A 25-pt post-print IV crush costs only ~ 22 pts of return at the base target - the thesis, not the vol surface, decides the P&L.

*Live option quotes as of Jul 17, 2026 close: $S = \$787.50$, $K = \$800$, 18-Dec-26 expiry, premium \$198.90, breakeven \$998.90, probability of profit 37.1%. Path values from the dealer vol matrix (\$1,120 strike row) at flat IV; second value assumes a 25-pt vol decline. Fundamentals downside (\$500 at the print) marks the call at $\sim \$56$ flat / $\sim \$29$ on a 25-pt crush (-72% / -85%) - the kill switch must fire at the print. Excludes spreads/costs/skew. Compare Jan/Feb-27 \$800s: Dec expiry may cut before the 2027 contract-pricing news cycle.



Risks, roadmap, and the kill switch



WHAT HURTS US

Sell-the-news at altitude

Up ~230% YTD even after multiple drawdowns; BofA's July 1 target raise was sold. An in-line quarter at ~28x FY27E consensus likely gaps -10-15% on $\beta \sim 2.1$.

Sector contagion is the default tape

The July 1-8 drawdown was SK Hynix outlook, Anthropic in-house-chip report and AI-glut chatter - none HDD-specific, all repeatable into the print window.

Out-year estimates now embed the bull case

FY28E consensus (CAPIQ mean) assumes 60% EBITDA margin and \$45 EPS - estimate risk has migrated from 'too low' to 'priced for the ramp' in the out-years. UBS \$860 Neutral (raised from \$545 on Jul 13).

SSD substitution (2027+ risk)

If NAND supply normalizes faster than expected the substitution ceiling returns - not a July risk, but it caps the terminal multiple. HDD downturns crater these stocks; size as a defined-risk catalyst trade.

WHAT WE WATCH

Sept-quarter guide

Revenue/EPS vs the ~\$3.7B whisper zone; the FQ ramp is the entire pitch

Gross margin trajectory

47% → 51-52%? WDC printed 50.5% and guides 51-52% for the same CQ; consensus 54% FY27E, path to 55-60% as HAMR mix + 2027 repricing land

2027 contract-pricing language

The single most important sentence on the call; negotiations conclude end-CY26

HAMR mix + capital return

Mozaic 4 exabyte share, Mozaic 5 qualification timelines, and buyback authorization

Kill the trade if management signals \$/TB flat-to-down for 2027 contracts, a top-2 hyperscaler signals allocation reduction or "digestion," the Sept-quarter guide implies gross margin below ~47%, or the 2027 contract-negotiation timeline slips beyond calendar Q4 2026.

