

Western Digital: Separate HDD and Flash Now-or Wait?

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Decision date and information cutoff: August 8, 2024, the filing date of Western Digital's FY2024 Form 10-K

Decision scope: Readiness to advance an already-authorized pursuit of separating HDD and Flash toward year-end 2024, or defer while strengthening divisional accountability inside WDC

The decision

On August 8, 2024, Western Digital Corporation (WDC) filed its annual report for the fiscal year ended June 28. Its board had unanimously authorized management to pursue separating the company's hard disk drive (HDD) and Flash businesses into two independent public companies. Management was targeting completion in the second half of 2024. The proposed separation was not complete: final board approval, financing, tax treatment, definitive terms, standalone financial statements and operational arrangements remained among the conditions and work ahead. [S1, pp. 15-16, 33]

The board now faces a readiness decision. Should it continue toward the year-end target, subject to explicit financing, tax, contractual and operating gates? Or should it defer the transaction, preserve WDC's shared treasury and services, and require stronger divisional reporting and accountability while the open questions are resolved?

The original authorization to pursue a separation is a fact. The board's final go/no-go decision remains open at this cutoff. This case asks how directors should govern that next step; it does not assume they can undo the prior authorization or that closing is inevitable.

Two storage businesses, different economics

WDC reported two segments, Flash and HDD, selling into Cloud, Client and Consumer end markets. The Client market included both HDD and Flash products. Management said the businesses had different technology roadmaps, market dynamics, investment needs and growth opportunities. It argued that separate companies could sharpen market-specific focus, support technology development and establish distinct capital structures. These are management's strategic rationale and expected benefits, not measured separation results. [S1, pp. 5-7, 33; S2]

The recent financial record presents both a case for distinct accountability and a caution against reading too much into one year. Revenue and gross margin were as follows: [S1, p. 37]

Fiscal year	Flash revenue (\$bn)	Flash gross margin	HDD revenue (\$bn)	HDD gross margin
2022	9.753	36.2%	9.040	29.4%
2023	6.063	7.1%	6.255	24.1%
2024	6.687	16.1%	6.316	29.8%

In FY2024, Flash revenue rose 10%, while exabytes shipped rose 21% and average selling price per gigabyte fell 8%. HDD revenue was approximately flat; exabytes rose 8% and price per gigabyte declined 5%. Both businesses' FY2024 revenues remained below FY2022 levels. These volume, price and margin movements reflect cyclical demand, utilization and mix as well as business characteristics. They do not show what either company's margins or cash flows would be after separation. [S1, pp. 37, 39]

The consolidated company was recovering but still reported a \$317 million operating loss and a \$798 million net loss in FY2024, on \$13.003 billion of revenue. FY2023 operating and net losses were \$1.285 billion and \$1.684 billion. FY2024 operating expenses included \$291 million related to litigation and \$97 million of separation costs. The \$97 million already recognized is a sunk cost for the decision ahead; the filing does not quantify total future one-time or stranded costs. [S1, p. 36, p. 60]

WDC's chief operating decision maker used segment net revenue and gross margin to allocate resources. Because production and distribution were integrated, segment assets were unavailable or unused for allocation. The report therefore offered neither a full standalone asset base nor segment cash flows or return on invested capital. Distinct technologies and gross margins may call for different plans, but segment reporting alone cannot establish that the current parent misallocates capital. [S1, Note 1, p. 59]

Separation readiness is also a financing decision

WDC reported \$7.488 billion of long-term debt, including current maturities, and scheduled debt interest of \$1.076 billion across the maturity-table horizon. The latter is not an annual interest run rate; FY2024 interest expense was \$417 million. Flash Ventures commitments totaled \$4.168 billion over the periods shown in the filing, including equipment depreciation and lease reimbursements, loans or equity investments, and other committed expenses. They should not be treated as a single year's capital expenditure or as freely cancellable debt. [S1, pp. 36, 44]

The filing warned that after a separation, Flash earnings, assets and cash would no longer support the remaining company's debt service and liquidity. Debt allocation, refinancing, covenant treatment and the standalone liquidity of each company were still central questions. The filing did not provide complete pro forma balance sheets, standalone ratings, or a through-cycle capital plan for each company. [S1, pp. 15-17, 44]

The latest year's investment also reflects a sharp pullback. WDC reported approximately \$825 million of company PP&E and Flash Ventures capital expenditures in FY2024, compared with \$2.220 billion in FY2023. A separate net cash measure-cash used in PP&E purchases and JV notes after JV lease financing and net operating cash flow-was \$53 million versus \$794 million. The two measures have different definitions. Management expected FY2025 cash capital spending to remain below FY2023; this was a forecast, not a realized result. A board evaluating standalone investment capacity must distinguish cash spent, gross commitments and the capital each business needs through a market downturn. [S1, pp. 42-43]

The Flash business remains connected to Kioxia

WDC's Flash business is closely linked to Kioxia through three jointly controlled Flash Ventures. WDC owned 49.9% of the ventures; Kioxia owned the fabs. The partners co-developed memory technology and generally divided output about equally. WDC bore half of fixed costs and roughly 49.9% to 50% of certain capital needs. WDC said the arrangement reduced product costs, supported quality and accelerated delivery. These are company characterizations. [S1, pp. 8, 16-17]

That manufacturing relationship would remain important regardless of WDC's corporate structure. The public information at the cutoff did not give students the full contracts or establish exactly which consent, governance, supply, customer and transition-service arrangements would be completed before a separation. The Kioxia dependency does not by itself prove HDD and Flash should share a parent; it does make operational continuity and contract readiness essential tests.

What the separation could-and could not-solve

The corporate-separation literature offers mechanisms, not a universal prescription. Some studies find that spun businesses become more responsive to industry investment opportunities, particularly when the businesses are unrelated; others find improvements in investment efficiency or information transparency in selected historical samples. The results are observational, use firms that chose to separate, and do not estimate a WDC-specific benefit. One study addressing selection and measurement problems reports no evidence of improved investment efficiency after spin-offs or divestitures. [S3-S7]

WDC's two divisions are technologically distinct but both operate in data storage and share end markets. The relevant question is not simply whether conglomerates trade at a discount. Directors should ask what value might come from distinct leadership, capital plans and disclosure-and what coordination, shared-service, customer or financing value could be lost. A clearer valuation is not the same thing as better operations or stronger cash flow.

Options for the board

1. Continue toward year-end, with conditional gates. Keep the announced timetable as a target, but do not authorize completion until management presents board-verifiable financing and liquidity plans for both companies, debt and covenant treatment, a credible tax path, definitive Kioxia/customer/supplier arrangements, auditable standalone financials, operating readiness, and quantified recurring, one-time and stranded costs. This could preserve momentum and focus, but a calendar target should not substitute for evidence.

2. Defer on a defined timetable. Keep HDD and Flash under one parent while requiring separate divisional capital plans, return hurdles, cost reporting and through-cycle liquidity scenarios. Set a date and deliverables for reconsideration. This preserves pooled liquidity and buys time to resolve the open questions, but extends transaction distraction and may leave any genuine allocation or focus problem in place.

3. Continue limited preparation while deferring the irreversible step. Maintain work that improves decision quality-standalone accounts, contract mapping, tax and financing analysis, customer continuity plans-while setting a later board gate. This retains some schedule flexibility but can still consume management attention and incur costs. The board would need to define which actions are reversible and cap spending until the evidence is ready.

Students may recommend a different path, but should state what is authorized now, what remains conditional, who owns each readiness test, and what evidence would trigger a pause or continuation. No public filing supplies a complete standalone model or a quantified separation return.

Assignment

Prepare a concise board memorandum that:

1. Recommends whether to continue toward the target, defer, or continue limited preparation while delaying the irreversible step.
2. Separates the strategic thesis from transaction readiness. Identify what separation can plausibly change and what it cannot change, including the Kioxia manufacturing relationship.
3. Defines at least four board-level gates across financing/liquidity, tax, contracts, financial reporting and operating readiness. For each, specify evidence, accountable owner, deadline and a stop/go consequence.
4. Explains how each business would fund technology investment and withstand a downturn without relying on the other's cash.
5. Presents the strongest argument against the recommendation and names the missing information most likely to change it.

Clearly label reported facts, management expectations and your own hypothetical assumptions. Do not invent standalone margins, debt capacity, synergies, costs, tax outcomes or valuation effects. If you use scenarios, label their inputs as hypothetical and show how the decision changes when assumptions move. Do not rely on later outcomes.

Sources and conventions

S1. Western Digital Corporation, **FY2024 Form 10-K**, fiscal year ended June 28, 2024, filed August 8, 2024. Cited locators are printed filing pages: Item 1, pp. 5-8 and 15-17; Item 7, pp. 33, 36-45; Note 1, pp. 59-60. SEC browser lines and exact table references are recorded in the research evidence extraction and source register.

S2. Western Digital, **"Western Digital to Form Two Independent Public Companies Focused on Data Storage Growth in HDD and Flash Markets"**, October 30, 2023. Cited for the board's authorization to pursue separation, management's rationale, intended timing and conditions.

S3. Gertner, Robert, Eric Powers and David Scharfstein (2002), "Learning about Internal Capital Markets from Corporate Spinoffs," *Journal of Finance* 57(6), 2479-2506. **Full text.** Relevant locators: sample and unit construction, pp. 7-12; results, pp. 14-24; interpretations and limitations, pp. 24-30. Full text sections on theory, sample, results and alternatives were read.

S4. Ahn, Seoungpil and David J. Denis (2004), "Internal Capital Markets and Investment Policy: Evidence from Corporate Spinoffs," *Journal of Financial Economics* 71(3), 489-516. **Full text.** Relevant locators: Table 4, pp. 499-501; Tables 6-7, pp. 505-508; limitations, pp. 510-511. Full relevant sections were read.

S5. Krishnaswami, S. and V. Subramaniam (1999), "Information Asymmetry, Valuation, and the Corporate Spin-off Decision," *Journal of Financial Economics* 53(1), 73-112. **Full text.** Relevant locators: sample/method, pp. 79-84; matched comparisons and event tests, pp. 85-93; conclusion, pp. 109-110. Full relevant sections were read.

S6. Çolak, Gönül and Toni M. Whited (2007), "Spin-offs, Divestitures, and Conglomerate Investment," *Review of Financial Studies* 20(3), 557-595. **Publisher abstract.** Abstract and citation only were checked; the full article was not available in the research pass. It is a counterweight, not a basis for detailed methodological claims.

S7. Daley, Lane, Vikas Mehrotra and R. Sivakumar (1997), "Corporate Focus and Value Creation: Evidence from Spinoffs," *Journal of Financial Economics* 45(2), 257-281. **Publisher page.** Publisher abstract and bibliographic details only were assessed. Use only to motivate heterogeneity by relatedness.

The information set closes on August 8, 2024. No later transaction status, operating results, valuation or outcome is part of this case.