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WDC Completes HGST Buyout - Analyst



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Written by Zacks →

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After dealing with a year-long delay due to government regulatory requirements, hard disk drive (HDD) manufacturer **Western Digital Corp.** ([WDC](#)) finally wrapped up the acquisition of Japan-based **Hitachi Ltd.**'s ([HIT](#)) Global Storage Technology business. Apart from the agreed purchase consideration, Western Digital had to pay an additional charge of \$392.0 million due to an amendment made to the purchase agreement.

Story Behind

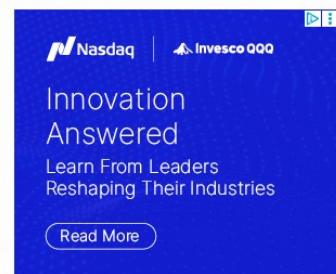
In March 2011, Western Digital signed a definitive agreement to take over HGST, for approximately \$4.8 billion. The total consideration was divided into two parts: cash of \$3.9 billion and 25 million shares valued at about \$0.9 billion. The acquisition was intended to make Western Digital a more customer-focused storage company, with

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significant operational scale and a product suite that would make it more competitive in the international market.



But the going was not smooth for the hard disk manufacturer. Western Digital had to clear several regulatory hurdles that included concerns related to the consolidation... Technologies plc ([STX](#)) signed a deal to acquire Samsung Electronics Co.'s storage business. According to the regulatory bodies, the consolidation actions by the giants could push smaller HDD vendors out of the market.

However, in November 2011, the European Union ([EU](#)) approved the deal only after Western Digital assured that it would sell off some its production assets, including a manufacturing plant, and transfer some intellectual property to the new unit. The sell-off guarantee would confirm that small manufacturers will remain afloat and Seagate Technology would not be its only rival.

In satisfaction of the EU requirements, Western Digital sold out some HDD assets to Tokyo-based Toshiba Corporation last month. Per the contract, Toshiba will now be able to manufacture 3.5" HDDs for desktop and consumer electronics markets and can become a direct competitor to Western Digital.

Current Scenario

The acquired HIT unit will become Western Digital's wholly-owned subsidiary and will operate independently for two years to comply with the principles of fair competition in the market.

Western Digital expects the acquisition to make a favorable contribution to its non-GAAP earnings. Despite a huge pay-off, the company expects to maintain a positive net cash position, which could be due to expected significant contribution from HGST.



To Conclude

We believe the acquisition will help Western Digital to take the lead in the hard drive market, as the additional capacity would alleviate supply issues. Of course, neck-to-neck competition with hard drive and flash drive manufacturers that supply to companies like Apple Inc. ([AAPL](#)) and Nokia Corp. ([NOK](#)) should not be discounted.

As per a recent forecast made by U.S. market research firm IDC, HDD revenues could grow at a 5-year CAGR (2011-2016) of 8.6% annually. We think that leveraging HGST's technology and business exposure, the company could capitalize on the opportunity.

This apart, we remain encouraged by the company's announcement that it has made significant progress to restore its manufacturing capacity following the recent flooding in Thailand. The company has already increased its HDD production in Thailand and expects to resume to its normal operations shortly.

With all the good news in its kitty, we believe that Western Digital deserves a Zacks #1 Rank, implying a short-term Strong Buy rating.

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