

CQ1 2006 Estimated HDD Results

EXECUTIVE SUMMARY

- Global shipments flat with CQ4 2005 levels at 105 million
- Desktop units down slightly to 57.5 million
- Notebook units up sharply to over 28 million
- Enterprise units down minimally, CE shipments still over 16 million

Overview:

The results for CQ1 have yet to be released, but we offer the following guidance for results based on current information. ***These are preliminary estimates and final, reported results could differ materially*** based on distribution channel acceptance at the end of the quarter. We will offer some insight into each supplier.

It is our preliminary estimate that between 104 million and 106 million HDDs shipped in Q1 '06, in line with our guidance provided in the *CQ4 2005 Quarterly Update* published in February 2006. We estimate that over 69 million units shipped in to the 3.5" desktop/CE segment, 6.5-6.6 million shipped in to the enterprise segment, over 28 million 2.5" HDDs were shipped into both CE and traditional applications, approximately 6.0 million 1.8" HDDs shipped to mainly the MP3 markets and approximately 1.6 million were <=1.0" HDDs shipped into various CE applications.

Early overview on HDD Suppliers:

Seagate: Preliminary findings from the field suggest that Seagate had another impressive quarter across the board. Inventory remained in control and we estimate the company's level was approximately 5 weeks. Enterprise shipments should post a slight sequential decrease, following industry trends. Seagate remained the unquestioned leader at virtually all OEMs, importantly in the 3.5" FCAL and 15K rotational speed applications. Additionally, the company is leading the charge in the SFF enterprise opportunity, but this continues to grow slower than anticipated. We estimate that notebook HDD shipments rose sharply in the quarter following the strong demand trends in the notebook PC market, and could propel the company into the third position globally. In the CE sector, Seagate was a player in multiple segments such as MP3 (1.0"), gaming (2.5") and PVR (3.5") opportunities. Good news on the pricing front as pricing remained responsible across the board. Overall, we estimate units grew sequentially.

Maxtor: Earlier this week, Maxtor pre-announced a shortfall in revenues and units for CQ1, not surprising given the impending acquisition by Seagate. Our estimate for Maxtor calls for a sharp decline in unit shipments sequentially, perhaps as much as a 2 million unit decline sequentially. Shipments in all segments decreased in the quarter. The company continues to act in a relatively responsible fashion from a pricing standpoint in both the OEM and distribution channels. Enterprise results should decline approximately 10% sequentially.

WDC: Results should be up impressively in CQ1 2006. Our estimates for final numbers for the company show another sequential increase. WDC clearly gained share in the desktop market as a result of the Maxtor shortfall, as well as a result of an expanded product portfolio. WDC also saw increased demand in the notebook segment following market trends, and WDC continues to post improvements in both the PVR/DVR markets, particularly with high-capacity 3.5" HDDs.

Hitachi GST: Initial results suggest Hitachi is making a comeback. Desktop and 3.5" CE units will show only a moderate decline from a unit perspective, not unexpected given the trend in the market following the seasonally strong CQ4 period. The enterprise group should post results in line with last quarters – over 1 million – as product quality and availability has improved. Hitachi GST remained the leading notebook HDD supplier, and finally appears to be participating in the surging notebook PC demand opportunity. The company should post gains a second strong quarter (in a row) relative to its 1.8" platform in both the notebook and CE sectors and 1.0" will be down sharply on a sequential basis. Overall, units should be up down only moderately on a sequential basis, but the real key is that the company appear sot be re-energized.

Toshiba: Is likely to flattish results relative to CQ4 2005 levels. Still a major supplier to the surging notebook market with both 2.5" and 1.8" offerings, the company is shifting more production to the 1.8" market in lieu of 2.5" products, but still remains a vital supplier of 2.5" products. We feel 2.5" and 1.8" demand was solid, and Toshiba is starting to ship its 0.85" solution. With growing acceptance of Flash in lower capacity CE products, this form factor will be challenged to distinguish itself as a viable option in the CE sector. Toshiba will likely fall to the third or fourth position globally as growth in the 2.5" market grows (particularly due to Xbox) in areas the company does not participate.

Samsung unit shipments should be relatively flat from CQ4 2005 levels. Desktop/CE demand will fall modestly on a sequential basis, but this will be made up with increases in the 2.5" notebook and CE sector. Overall, we are estimating that Samsung will post unit shipments near 10 million.

Fujitsu should post improved results in the notebook sector but the enterprise group is enduring continued challenges on the technical front. Improvements in quality and an expanded portfolio has been a key to OEM success and Fujitsu is improving its production capability. Enterprise results are likely to show a modest decrease due to the continued technical challenges from the past six months. Overall units should be up 8-10% relative to CQ4 2005.

Excelstor continues ship comparable levels on a sequential basis of its own branded HDD shipments in to the Chinese PC market, while newcomers **Cornice** and **GS MagicStor** struggle to gain a foothold in the non-U.S. based small form factor market. Both 1" suppliers will report lower unit sales in the quarter.

Preliminary HDD Shipments by Segment:

Desktop shipments appear to be slightly behind our expectations provided in the **CQ4 2005 Quarterly Update**. In our preliminary examination of results for CQ1 2006, shipments appear to be tracking to ship 64 million in the quarter. Despite the uncertainty relative to end of quarter shipments and inventory positions, we are fairly confident that inventory stands at just over 5 weeks exiting CQ1. Pricing continues to be responsibly managed from all suppliers, particularly the Big Three, and we are unaware of any hazardous channel activity late in the quarter. Of the 64 million estimated for the quarter, we are estimating over approximately 6 million went to CE applications, down slightly with guidance provided last quarter.

Enterprise shipments should post a decrease on a sequential basis as demand remained relatively healthy from the strong CQ4 results. In our preliminary examination of results for CQ1, shipments are tracking near 6.5-6.6 million units, a sequential decrease of only 3%.

Notebook HDD shipments will exceed our expectations provided in the **CQ4 2005 Quarterly Update**. In our preliminary examination of results for CQ1, shipments are tracking at over 25 million, and pricing has stabilized as demand has exploded. Global notebook PC demand was once again strong, easing our earlier fears of global oversupply conditions from the HDD community in this market.

CE HDD shipment results appear to be coming in on target with our expectations provided in the **CQ4 2005 Quarterly Update**. In our preliminary examination of results for CQ1, shipments are expected to surpass 16 million, but we are still finalizing consumption patterns from various PVR, MP3, and game console manufacturers.

Key Issues from Q1 2006:

- A. 1.0" demand continues to decline, falling over 25% from CQ4 levels. With MP3 players migrating to flash, and the lack of a secured cell phone client, demand in the coming quarter remains suspect.
- B. The surge in notebook demand continues to outpace all expectations, and there appears little evidence of a slowdown in the near-term. HDD suppliers are facing a changing landscape – increased demand, improved supplier capability (Hitachi GST, Seagate, Samsung, WDC), and shifting priorities (1.8" versus 2.5") portend an ongoing positive scenario in this sector.
- C. Seagate's acquisition bid for Maxtor could be accelerated – completion could come as early as May 2006. As expected, unit demand for Maxtor products is declining due to a combination of product quality issues as well as OEM hesitancy relative to the future of the Maxtor portfolio following the acquisition. With the desktop market destined to have only four major suppliers (after the acquisition – Seagate, Western Digital, Samsung, and Hitachi GST), and the enterprise sector with only three suppliers (Seagate, Hitachi GST and Fujitsu), the opportunities for other suppliers to expand and offer broader coverage via acquisition is limited. Not unexpectedly, more rumors of M&A activity – Samsung and WDC is the latest – have surfaced.

Outlook into CQ2 2006:

*Trend*FOCUS is looking at total demand for Q2 to be approximately 106 million HDDs, an impressive number and one that would show a modest increase from Q1 2006 levels but a 15-16% growth from Q1 2006 results. This is supported from PC and notebook PC demand, as well as the growing utilization of HDDs in CE devices.

Our outlook for the Q2 desktop market is for 66 million HDDs (this includes CE shipments). Current build schedules for this segment total about 75 million.

Our outlook for the Q2 enterprise market is for 6.8 million HDDs. Current build schedules for this segment is 7.0 million.

Our outlook for the Q2 2.5" notebook/CE HDD market is for 30 million HDDs. Current build schedules for this segment is now over 33 million.

Our outlook for the Q2 1.8" notebook/CE HDD market is for 6 million HDDs. Current build schedules for this segment is now 7 million.

Our outlook for the Q2 1.0" notebook/CE HDD market is for between 1.5 and 1.7 million HDDs. Current build schedules for this segment is now over 3 million.