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Prepared Remarks on First Fiscal Quarter 2013 Results

April 17, 2013

JAY IYER, INVESTOR RELATIONS

Thank you and good afternoon. With me on the call are Sanjay Mehrotra, President and CEO of SanDisk and Judy Bruner, Executive Vice President of Administration and CFO.

Before we begin, please note that any non-GAAP financial measures discussed during this call, as defined by the SEC in Regulation G, will be reconciled to the most directly comparable GAAP financial measure. That reconciliation is now available along with supplemental schedules on our website at sandisk.com/IR. Please note that non-GAAP to GAAP reconciliation tables for all applicable guidance will be posted on our website. This guidance is exclusive of any one-time transactions and does not reflect the effect of any acquisitions, divestitures or similar transactions that may be completed after April 17, 2013. In addition, during our call today, we will make forward-looking statements. Any statement that refers to expectations, projections or other characterizations of future events including financial projections

and future market conditions, is a forward-looking statement. Actual results may differ materially from those expressed in these forward-looking statements. For more information, please refer to the “Risk Factors” discussed in the documents we file from time to time with the SEC, including our Annual Report on Form 10-K for fiscal 2012 and our subsequent quarterly reports on Form 10-Q. SanDisk assumes no obligation to update these forward-looking statements, which speak as of today.

I’d like to take this opportunity to let you know that we plan to hold our annual Investor Day meeting on May 8, 2013 and our second quarter results conference call on Wednesday July 17th, 2013.

With that, I will turn the call over to Sanjay.

SANJAY MEHROTRA, PRESIDENT & CHIEF EXECUTIVE OFFICER

Thank you Jay and good afternoon everyone.

We are pleased to report record first quarter revenue for Q1, 2013 with our performance driven by robust sales of SSD products which drove 20% of our sales, and by strength in our retail channel, which also set a revenue record for a first quarter. Our results demonstrate substantial progress in continued diversification of our portfolio, driven by growth in SSDs and a broadening range of embedded

solutions. We believe our first quarter achievements have positioned the company well for continued gains on multiple fronts throughout 2013.

Starting with the specifics of the first quarter, I am happy to report that combined sales of client and enterprise solid state drives (SSD) tripled year-over-year. For the client market, we have begun revenue shipments of our new 19-nanometer SSDs to the Retail and B2B channels. We are also in various stages of OEM customer qualifications with our 19-nanometer client SSDs and we expect to begin revenue shipments late in the second quarter. The client SSD market continues to grow, driven by the improving attach rate to ultrathin PCs, and SanDisk continues to gain share and momentum in this market. SanDisk is particularly well positioned to benefit from side-by-side caching and stand-alone SSDs, both of which we supply to the vast majority of leading PC OEMs. Our enterprise SSDs also posted strong year-over-year and sequential growth, setting a second consecutive record for quarterly revenue. In the first quarter, for the first time, the majority of our enterprise SSD revenue was derived using captive memory supply. These products are built with our 24-nanometer memory and we expect to launch our next generation SAS and PCIe SSDs manufactured on our 19-nanometer technology, in the second half of this year.

In the mobile market, we achieved strong year-over-year growth in our embedded sales as our portfolio offered a wide array of solutions to our customers. Designs wins incorporating iNAND™ MCP, which is our iNAND embedded flash drive

packaged with mobile DRAM, continue to increase to address the growing market for budget smartphones. We are also successfully extending our removable product segmentation strategy to embedded solutions, as reflected in the most recent announcement of a reference design win, for the iNAND Extreme™ embedded flash drive, with NVIDIA's Tegra processor for tablets. In the first quarter, the combined sales of our iNAND discrete and iNAND MCP product lines increased substantially on a year-over-year basis.

Turning to mobile cards, we achieved significant progress in establishing the high-performance mobile card category in the retail channel, with our SanDisk Ultra® microSD™ cards. In particular, due to the rapidly expanding base of Android devices, the majority of which also have card slots, we leveraged our broad market presence, to drive strong growth in unit sales of our SanDisk Ultra mobile cards. This product line now represents an increasing mix of our mobile cards sold through retail. I would also like to point out that as the rate of card bundling with mobile devices at OEMs has declined, we have seen sustained increases in mobile card sales through the retail channel, and at substantially higher average capacities.

Overall in the retail channel, we achieved record first-quarter revenue performance driven by market share gains and very strong year-over-year revenue growth from imaging and mobile cards, as well as from USB flash drives across all regions. Additionally, the revenue mix of our high-performance products in retail increased by

nearly twenty-percentage points to over 40%. Our broad global footprint, diversified product portfolio and brand strength are key differentiators for our global retail offerings and together represent a unique competitive advantage for the company.

Turning to manufacturing, our 19-nanometer technology remained the dominant production node in the first quarter and we anticipate continued high usage of 19-nanometer technology throughout 2013. We expect to begin initial production of 1Y nanometer technology late in the third quarter. We will review more details related to our 1Y and future technologies during our upcoming Investor Day on May 8th.

Looking at supply bit growth estimates, we continue to believe that the 2013 industry supply bit growth rate will be in the range of 30-40%, and that our captive supply bit growth will be meaningfully below that range. We expect a healthy demand and supply balance and a favorable pricing environment in 2013. We have decided not to add new wafer capacity in Phase 1 of Fab 5 during the remainder of 2013, instead concentrating our efforts on completing the remaining 19-nanometer transition, beginning the 1Y-nanometer transition and making continued improvements in fab productivity. Given the increased manufacturing equipment requirements for 1Y, we expect to utilize the remainder of the cleanroom space in Phase 1 of Fab 5 to continue the 1Y transition in the three Yokkaichi fabs. We expect that the Phase 1 Fab 5 cleanroom will be approximately 75% full by the end of this year and ultimately will be completely filled by the equipment required for the Yokkaichi 1Y transition.

We continue to make good progress in our 3-pronged memory technology strategy, which includes planar NAND scaling, 3D BiCS NAND, and 3D Resistive RAM. As we consider future cleanroom space requirements we will need additional space to complete the 1Y technology transition and to enable transitions to 1Z-nanometer for Fab 3, Fab 4 and Phase 1 of Fab 5, and potentially for BiCS NAND technology as well, once it is ready for manufacturing. While we have not made a final decision, we now expect to begin construction of the Fab 5 Phase 2 shell sometime in the second half of this year, with construction expected to take several quarters. Phase 2 of Fab 5 is not expected to contribute any meaningful incremental wafer capacity for SanDisk in 2014.

In closing, we ended the first quarter of 2013 in a position of increased competitive and financial strength. Our markets remain healthy, growth drivers are diverse and strong, and we remain focused on prudently managing our capacity, driving profitable growth and creating shareholder value. I look forward to meeting many of you at our annual Investor Day on May 8. With that, I will turn the call over to Judy for her financial review and outlook.

JUDY BRUNER, EXECUTIVE VICE PRESIDENT, ADMINISTRATION & CFO

Thank you, Sanjay. Our strong first quarter results reflect the benefit of our broadening product portfolio and our disciplined capacity management. The key highlights of the quarter included our SSD product revenue, which grew over 200% on a year-over-year basis, and the continued strengthening of our global retail channels, which produced year-over-year revenue growth of 34%.

Our record first quarter revenue grew 11% year-over-year with petabytes sold up 36% and ASP per gigabyte down 18% from Q1 last year. Sequentially, revenue was seasonally down 13% with petabytes sold down 16% and ASP per gigabyte up 2% reflecting strong supply/demand balance and an improving product mix. This is the first time in our history that ASP per gigabyte has gone up sequentially for two quarters in a row. Our Q1 blended price increase was driven by an increased sales mix of SSDs as well as real price increases in several parts of our business, partially offset by a decline in the ASP of our retail sales due to mix. Our retail channel ASP declined sequentially due to a seasonally lower mix of imaging cards, a higher mix of USB sales and emerging markets business and also due to strong growth in the average capacity of our retail products. While our overall blended retail ASP was down sequentially due to these mix factors, we did raise ASPs for many of the retail product lines, and retail delivered strong gross margin in Q1.

As I described last quarter, we are now reporting the channel mix of our revenue as retail and commercial. The commercial channel includes OEM customers, B2B customers, direct enterprise customers and licensees. Our total Q1 revenue was 62% commercial and 38% retail, reflecting a year-over-year mix shift toward retail of 6 percentage points driven by our strong growth in that channel.

Our first quarter commercial revenue grew year-over-year by 1% to \$829 million with product revenue up \$2 million and license & royalty revenue up \$3 million. Within commercial product revenue, SSDs produced the strongest growth and embedded sales grew 30% year-over-year. The growth from SSDs and embedded products was largely offset by a continued decline in OEM bundled card revenue as well as a shift away from white label OEM cards and wafers in order to prioritize memory supply for SSDs and embedded. Our license & royalty revenue was over \$102 million, reflecting a seasonally strong Q4 for flash sales and also benefitting from higher one-time payments from system licensees, partially offset by a continuing decline in royalties related to the card market.

Our first quarter retail revenue grew 34% year-over-year to \$512 million with the highest dollar growth coming from mobile cards. As Sanjay described, we believe that consumers are increasing their purchases of retail mobile cards due to the limited card bundling by OEMs, and our leading retail presence enables us to fulfill a large share of this demand, which tends to be higher capacity and higher performance cards

than in the bundled market. The average capacity of our mobile retail cards in Q1 was over 11 gigabytes, compared to less than 6 gigabytes for mobile cards in the commercial channel. Our year-over-year retail sales growth was also very strong for USB drives, client SSDs and imaging cards, and regionally, our retail revenue delivered substantial year-over-year growth in all major regions.

Our non-GAAP gross margin increased from 39.9% in Q4 to 40.5% in Q1. Our product gross margin remained approximately constant sequentially with license & royalty revenue driving the sequential increase in total gross margin. Both our ASP per gigabyte and our cost per gigabyte increased 2% sequentially, with the increase in both metrics driven largely by product mix. Looking at the components of our product costs, our flash memory cost per gigabyte improved modestly, with this sequential improvement more than offset by an increase in our non-flash cost per gigabyte. Our mix of 19-nanometer and X3 memory remained approximately constant on a sequential basis, with the improvement in our flash memory costs driven by the usage of higher average capacity die and a slight improvement in our Yen rate from 79 to 81. So far almost all of our SSD products sold have been manufactured using 24-nanometer technology. As we begin to transition our OEM client SSDs to 19-nanometer late in Q2, as Sanjay described, we will have more opportunity to increase the 19-nanometer mix which will contribute to cost reduction. The increase in our non-flash cost per gigabyte came primarily from an increased sales mix of SSD and MCP products. In comparison to our traditional product mix,

SSDs carry a higher cost on a per gigabyte basis for non-flash costs such as those related to transformation & test and the controller and PCB materials. And of course our MCP products carry a higher non-flash cost due to the non-captive mobile DRAM. On a year-over-year basis, our non-GAAP gross margin increased by almost 500 basis points with cost per gigabyte down 24% compared to the 18% decline in price per gigabyte.

Our Q1 non-GAAP operating expenses were \$255 million, equal to our previous forecast. The sequential increase in R&D expense came primarily from SSD development and memory technology & design. Sales & marketing expenses were sequentially down due to seasonally lower spending on branding and merchandising.

Our Q1 non-GAAP operating margin was a healthy 21.5%, and the non-GAAP tax rate was 29% including a one-time Q1 benefit from the retroactive passage of the 2012 R&D tax credit. Our diluted share count increased sequentially by 1.4 million shares as option exercises and employee stock purchases outweighed our increased share repurchases during Q1.

On the balance sheet, gross cash and marketable securities increased in Q1 by almost \$500 million to nearly \$6.2 billion, bringing net cash to over \$4.2 billion. Our inventory balance decreased modestly in Q1 and we are supply constrained in several areas. With solid profits and strong balance sheet management, cash flow from

operations in Q1 was \$474 million, our highest ever first quarter cash flow from operations, and we also received \$54 million of repayments from the joint ventures. We spent \$48 million of cash on property & equipment during Q1, primarily for test equipment and facilities outfitting, and our share of joint venture fab investments was approximately \$50 million, which was funded by the joint ventures. The joint ventures did not take out any new leases during Q1 and our share of off-balance sheet lease obligations was reduced to \$743 million. We spent \$90 million on share repurchases during Q1 to repurchase 1.76 million shares at an average price of \$50.97.

I'll now turn to forward-looking commentary.

Based on our decision to add no new wafer capacity beyond productivity improvements in 2013, we expect to be supply constrained for the remainder of the year. We anticipate a very modest level of price decline in 2013 due to our expectation of continuing favorable supply/demand balance coupled with an increased year-over-year mix of SSD and embedded product sales as well as high performance retail product sales. We expect our second quarter revenue to be between \$1.35 billion and \$1.40 billion. This is a narrow range reflecting supply constraints and also a sequentially lower level of SSD revenue in the second quarter due to lumpiness in the timing of sales to certain customers. For the full year, we are raising our estimated revenue range to \$5.60 billion to \$5.75 billion.

We expect our second quarter non-GAAP gross margin to be 41% - 43%, reflecting the positive impact from our hedged yen rate of approximately 86 compared to 81 in the first quarter, partially offset by a lower mix of license & royalty revenue as card market royalties continue to decline and without the benefit of certain one-time royalties in Q1. We expect gross margins to increase further in the second half of the year, and we are raising our estimate of full year 2013 non-GAAP gross margin to 42% - 44%, with the midpoint 200 basis points higher than our previous estimate. The increase in our 2013 gross margin range is due primarily to our expectation of a continued strong pricing environment and a weaker yen in the second half, and also takes into account increases in demand mix and costs for certain embedded products, such as MCPs, which we have developed for our strategic customers and that have a lower than average gross margin. With respect to the Yen, we have locked in approximately half of the purchases that will impact our Q3 cost of sales at a yen rate of approximately 95. The second half of our Q3 and all of our Q4 yen-based cost of sales are unhedged and subject to market exchange rates. I want to elaborate a bit further on the yen and describe two factors which are reducing the future impact of changes in the Yen exchange rate on our gross margins. First, as the Yen continues to weaken, the yen-based proportion of our cost of sales is naturally shrinking. Second, with our mix of sales evolving toward products that have a higher proportion of non-flash costs, this is also reducing the yen-based proportion in our cost of sales. Because of these two factors, the impact of a 10% movement in the Yen to dollar

exchange rate is currently about 300 basis points in our gross margins compared to our previous estimate of 400 basis points. In summary, the midpoint of our 2013 non-GAAP gross margin of 42% - 44% has increased by approximately 900 basis points from 2012.

Turning to expenses, we continue to expect 2013 non-GAAP operating expenses of approximately \$1.05 billion, with Q2 expenses forecasted at approximately \$260 million, and we expect the non-GAAP tax rate for the remainder of the year to be approximately 32%, a point higher than our previous forecast due to stronger profitability. Our stock price is now above the \$52.37 conversion price of our 2017 convertible debt. While we hedged the conversion price to approximately \$73, accounting rules require us to include potential dilution from the 2017 convertible debt in our diluted shares without an offset from the hedge. We expect to continue utilizing our share repurchase plan in Q2, however, we now expect our diluted share count to increase sequentially by approximately 2 million shares in Q2, primarily due to the convertible debt accounting. We plan to spend quite a bit more on share repurchases in 2013 than we did in 2012 with the objective to at least offset dilution from employee incentive awards.

We expect 2013 capital investments to be similar to our previous estimates, and I will share more details on our capital investments at our May 8th Investor Day. One last comment related to the balance sheet and use of cash is a reminder that in Q2 the first

of our convertible debt offerings will mature and we will utilize \$928 million of cash to pay off the remaining principal. We do not expect to issue any shares in connection with the retirement of this convertible debt.

In closing, we are pleased with our strong first quarter results and expect to deliver further growth across the year in both revenue and profitability. We will now open the call for your questions.

JAY IYER, INVESTOR RELATIONS

We want to thank everyone for joining our call today. A webcast replay of today's call should be available on our investor relations website shortly. Thank you and have a good evening.

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