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***Prepared Remarks on Third Fiscal Quarter 2013 Results***

*October 16, 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. In a moment, we will hear remarks from both of them, followed by Q&A.

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](http://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 October 16, 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.

And finally, I'd like to inform you that we are planning for our fourth quarter 2013 results earnings call on Wednesday, January 22, 2014.

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

SANJAY MEHROTRA, PRESIDENT & CHIEF EXECUTIVE OFFICER

Thank you Jay. Good afternoon everyone.

We are pleased to report outstanding third quarter results with record revenue and excellent gross and operating margins. We achieved these results through continued strong execution on our strategy of shifting the portfolio to higher value solutions.

We grew our client and enterprise SSD revenue, which together contributed 20 percent of quarterly revenue. We delivered strong performance in our embedded products, and our retail channel grew in both emerging and developed markets. We

closed the acquisition of SMART Storage Systems, which has significantly strengthened our enterprise storage portfolio. Our excellent third quarter achievements keep us on track to deliver record 2013 results.

Turning to SSDs, our client SSDs delivered record revenue for a fourth quarter in a row. The client SSD market continues to grow, driven by growing customer preference for high performance, instant-on capabilities of devices in thin-and-sleek form factors. SanDisk client SATA SSDs are now qualified at all major PC OEMs. We also saw strong acceptance of our high-performance 19-nanometer client PCIe SSDs. We continue to invest in improving our product capabilities and customer engagements to further build upon our growing share in client SSDs.

In enterprise SSDs, we achieved sequential revenue growth to deliver yet another record quarter. Our growth has enabled us to establish SanDisk as a leader in the enterprise SAS market.

We are pleased to have closed the SMART Storage Systems acquisition and we welcome the new employees to the SanDisk team. The acquisition brings us new enterprise customers and SanDisk enterprise SSDs are now qualified at 6 of the top 7 storage OEMs. In addition to expanding our SAS product offerings, the SMART Storage Systems acquisition also enables us to serve a \$1.7 billion TAM for enterprise SATA products.

We are excited about the potential synergies that we can drive in our portfolio of enterprise and client SSDs by leveraging SMART Storage Systems' Guardian Technology™. Following the close of the acquisition, we have been reviewing our overall enterprise SSD roadmap and I want to highlight some of our conclusions: we have determined that SMART Storage Systems' enterprise SSD product architecture is more scalable than our existing platform with significant headroom to drive new features, and higher levels of performance and endurance that our enterprise customers require. Therefore, we plan to implement the Guardian Technology into more of the enterprise products in our roadmap. Simultaneously, we are accelerating investments in ULLtraDIMM™, a new product category aimed at the high-performance, low-latency market, which thus far has been served mostly by PCIe-based products. ULLtraDIMM SSDs place NAND flash memory on DIMMs very close to the processor, enabling lower latency and higher storage densities per server for high-performance computing applications. We believe the combined enterprise product roadmap from SMART Storage and SanDisk significantly strengthens our portfolio and broadens the range of opportunities we can address, spanning Fortune 500 IT infrastructure to the hyperscale data centers.

As we review the progress on our next-generation 12Gb SAS platform based on the Pliant technology, we have concluded that the expected launch of our 12Gb SAS SSD products will be delayed. The related enterprise PCIe products will also be impacted.

The 12Gb SAS SSD products are expected to be released around mid-2014 and we believe that our SAS product portfolio will continue to lead the industry. We expect to introduce a high-performance enterprise PCIe product in 2014. We also plan to address the high-performance, low-latency market with our ULLtraDIMM product, which we are already sampling to OEMs to initiate their driver development and system integration activities.

Overall, with our broadening portfolio of products and customer engagements in the client as well as the enterprise SSD markets, we are on a trajectory to exceed our 2013 goal to deliver 15 percent of our revenue from SSDs and we remain on track to deliver 25 percent of our revenue from SSDs in 2014. SanDisk is also continuing to drive innovation in use-cases for NAND flash through our venture investments, and we are pleased with the strategic benefits we have realized from the SanDisk Venture initiatives thus far. We expect the enterprise storage market will continue to see rapid innovation and growth, and SanDisk with its strategic advantages, including deep enterprise storage expertise, software capabilities and vertical integration, is well positioned to provide leadership in this space.

Our mobile products revenue represented 47 percent of quarterly revenue, with the largest portion driven by our embedded solutions. SanDisk has made significant inroads into the rapidly growing mid- and low-tier smartphone segments with our iNAND™ embedded flash and iNAND MCP offerings, further building upon our

strong presence with global smartphone and tablet OEMs. Smartphone and tablet OEMs in China are eager to capture the growing mobile opportunity and their products are being launched with strong technical specifications and growing average storage capacities. Additionally, industry trends in mobile are now showing new use cases that can increase local storage needs. For example, the introduction of 4K and 120 frames per second video capability, increasing adoption of burst mode in mobile devices, and recent offerings from content providers that drive more usage of local storage, are trends which bode well for average capacity increases in smartphones.

Retail had an excellent quarter, driven by the back-to-school season and solid execution in all regions. Product innovation and leadership momentum remained high with the introduction of the world's fastest and highest capacity SanDisk Extreme Pro<sup>®</sup> CompactFlash<sup>®</sup> card at 256 gigabytes and the SanDisk Extreme Pro CFast<sup>™</sup> 2.0 product line, new products that are suitable for high-end broadcast, cinema and pro video markets. We also launched a new family of SanDisk Connect<sup>™</sup> products that allow consumers to better manage mobile content and media, as well as to stream this content to multiple devices simultaneously. Our well recognized and trusted brand, innovative and broad retail product offerings, global presence and strong supply chain execution position us well for continuing strength and further gains in the retail channel.

Turning to manufacturing, as of the third quarter, our 19-nanometer technology has fully ramped. We also commenced the ramp of our 1Y technology, with X2 as well as X3 memory, and we have already shipped product to customers based on this technology. We expect 1Y to achieve cost crossover with 19-nanometer in the fourth quarter and we estimate approximately 15 percent of our production output to be on 1Y exiting the year.

In memory technology, we are making excellent progress in scaling to the 1Z node and expect to target production starts in late 2014. We continue to believe that our 1Y and 1Z 2D NAND nodes will position us well for addressing a broad range of applications and market opportunities in 2014 and 2015. From a future technology perspective, as we progress with our BiCS NAND development, our efforts are focused on modifying certain aspects of our memory architecture and related process technology to optimize for manufacturability, scalability, cost and product specifications targeting a broader range of applications. We continue to target pilot production of BiCS NAND in 2015 and volume ramp of products in 2016.

Switching to supply, we estimate the 2013 industry bit supply growth to be approximately 40 percent, with relatively similar expectations for 2014 as well. We continue to expect SanDisk's 2013 bit supply growth will be approximately 20 percent and that our 2014 bit supply growth will be between 25 percent and 35 percent. The industry bit growth estimates include assumptions of 2D NAND

transitions, new wafer capacity additions, as well as conversions of some DRAM wafer capacity to NAND and early production of 3D NAND. We believe that demand drivers for the industry will continue to be strong and that the fundamentals of the industry will remain healthy in 2014.

To summarize, we are very pleased to have reported outstanding third quarter results and we are looking forward to a strong finish to 2013. We are focused on executing to our technology strategy, driving our ongoing portfolio shift to higher value solutions, prudently managing our capacity, and creating shareholder value. 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. Q3 was an outstanding quarter with 28% year-over-year revenue growth, 50% non-GAAP gross margin and 33% non-GAAP operating margin. In addition, we retired 15.7 million shares, and we made our first-ever dividend payment. And today, we announced our fourth quarter dividend.

Our record revenue of \$1.625 billion was comprised of year-over-year growth in gigabytes sold of 14% and a year-over-year increase in blended ASP per gigabyte of 12%. While our prudent capacity management has contributed to a strong supply/demand for our business, the biggest driver of our year-over-year price increase has been the mix shift in our sales toward embedded and SSD solutions. In

addition, we have increased the mix of our high performance retail products and we have reduced the mix of non-branded sales. On a sequential basis, our third quarter gigabytes sold grew 15% and our ASP per gigabyte decreased 3%. For the 9 months of 2013, compared to the same period of 2012, our blended ASP per gigabyte is unchanged, benefitting from the improving mix of our portfolio and careful attention to managing our capacity to meet demand.

Our third quarter revenue mix between commercial and retail customers remained constant sequentially at a mix of 65% commercial and 35% retail.

Our retail revenue grew 11% sequentially and 18% year-over-year, with sequential growth strongest in USB drives, and year-over-year growth strongest in mobile cards. On a year-over-year basis, our retail revenue has grown nicely in all major regions, and we believe that we have gained share globally. Our commercial revenue grew 10% sequentially and 33% year-over-year, with the mix of our commercial sales shifting significantly toward embedded and SSD products. Within our Q3 total revenue, we achieved a record 50% mix from SSD and embedded solutions.

On a year-over-year basis, our blended cost per gigabyte declined 19% compared to our price increase of 12%, resulting in non-GAAP gross margin increasing from 31% in Q3 of last year to 50% this Q3. On a sequential basis, our non-GAAP gross margin increased 340 basis points, with cost decline of 10% compared to price

decline of 3%. The sequential cost improvement and related margin expansion came primarily from a more favorable Yen rate in our cost of sales, an increased usage of 19 nanometer supply, driven by our portfolio mix, and lower period costs. In Q3, the Yen rate in our cost of sales was 93 compared to 85 in the second quarter, and the 19 nanometer mix in our sales increased to over 85% compared to less than 80% in Q2.

Our Q3 non-GAAP operating expenses increased \$22 million sequentially to \$282 million, with the increases coming from three primary areas: First -- the addition of SMART Storage Systems from August 22<sup>nd</sup> through the end of our quarter; second -- an increased investment in memory technology and systems engineering; and third -- an increased investment in sales and marketing for the commercial channel. In our GAAP expenses, in addition to the usual stock compensation and amortization of acquisition related intangibles, we have recorded an \$83 million impairment of the intangible assets from our Pliant acquisition. This stems primarily from our decision to integrate more of the SMART Storage Systems architecture and technology into our future enterprise product roadmap, and to some extent from the delay of our next-generation SSD platform built on the Pliant technology. There is \$41M of Pliant intangible assets remaining on the balance sheet, which will be amortized to expense between now and the end of 2014.

Our Q3 non-GAAP operating margin increased sequentially from 29.0% to 32.8%, resulting in record quarterly non-GAAP net income, and we delivered a substantial

increase in EPS on both a non-GAAP and GAAP basis. I want to mention that in our non-GAAP share count we are now including the expected impact of the bond hedge we carry on our convertible debt, which will provide an offset to the shares ultimately issued for the convertible notes at maturity in 2017. While the effect of the bond hedge cannot be included in GAAP diluted shares until it is exercised at maturity, we believe it makes sense to include this in non-GAAP diluted shares, and we have reflected this in our Q3 non-GAAP results and retroactively adjusted our Q2 non-GAAP shares downward by 1.6 million. A schedule available on the Investor Relations page of our website outlines the share dilution expected from the convertible debt at various stock prices, showing the difference between GAAP and non-GAAP share count, and this schedule has also been updated to account for the impact of the dividends paid to date.

Turning to cash flow, our cash flow from operations was \$382 million and we spent \$51 million on capital equipment, resulting in free cash flow of \$331 million. We utilized a net \$304 million of cash for the SMART Storage Systems acquisition, \$1.07 billion for share repurchase which includes an open ASR contract, and \$51 million for our Q3 dividend. Our joint venture fab equipment investments in Q3 were \$227 million with no cash contributions required. On a year-to-date basis, our joint venture fab equipment investments have been \$407 million, and all payments have been funded by the joint ventures with cash of \$73 million received by us in repayment of our joint venture notes receivable. The joint ventures have not utilized

any equipment leases so far this year, and our off-balance sheet fab equipment lease guarantees have been reduced to \$565 million.

I will now turn to forward-looking commentary.

We expect our fourth quarter revenue to be between \$1.65 billion and \$1.725 billion, reflecting continued healthy demand with blended price decline somewhat higher than in Q3, due in part to a higher mix of holiday retail sales. Our strong Q3 revenue coupled with our Q4 revenue expectation brings our full year 2013 revenue forecast above the high end of our previous estimates.

We forecast our fourth quarter non-GAAP gross margin to be in the range of 48% - 50%. We expect fourth quarter sequential cost reduction to be less than we experienced in the third quarter as our 19 nanometer sales mix is not expected to grow, the 1Y nanometer contribution to Q4 cost reduction will still be small, and the sequential improvement from the Yen will be less in Q4 than it was in Q3. Our expected Yen rate in Q4 cost of sales is slightly below 97.

We expect expenses to increase in the fourth quarter due to a full quarter of expenses from the addition of SMART Storage Systems, seasonal marketing expenses, and increases in R&D expenses, some of which will be non-recurring. Our Q4 non-GAAP expense forecast is \$310 to \$320 million, including approximately \$15 million

of one-time and seasonal expenses. We expect our tax rate to remain about the same, and we expect our diluted non-GAAP share count to decline by approximately 3 million shares as we benefit from a full weighting of our third quarter share repurchases.

We expect an increase in capital investments in Q4 for 1Y transition equipment at the fab joint ventures and for manufacturing equipment within SanDisk, bringing gross capital investments for the year to between \$1.0 billion and \$1.1 billion. Q4 cash usage for these investments is expected to be in the range of \$125 million to \$150 million, bringing full year cash usage to \$250 million or less.

In summary, we believe our strong results reflect a broadened portfolio with increasing penetration into high value solutions, strong execution on technology transitions and prudent management of capacity. We believe 2013 will set a record for us in terms of revenue, non-GAAP net income, and cash flow from operations, and we are very pleased to have utilized a substantial portion of this cash flow to increase total shareholder return through our share repurchases and our dividend payments. 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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