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***Prepared Remarks on First Fiscal Quarter 2014 Results***

*April 16, 2014*

JAY IYER, INVESTOR RELATIONS

Thank you Jessica and good afternoon everyone. 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 also 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 16, 2014. In addition, during our call today, we will make

forward-looking statements that refer to expectations, projections or other future events. Please refer to today's press release and our SEC filings including the most recent 10-K for more information on the "Risk Factors" that could cause actual results to differ materially from those expressed in the forward-looking statements. SanDisk assumes no obligation to update these forward-looking statements, which speak as of today.

Before I turn the call over to Sanjay, I would like to inform you that our 2014 Investor Day meeting will be on May 7 and I look forward to seeing many of you then. Please mark your calendars.

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 very pleased to report record first quarter results driven by strong execution of our strategy. The 13% year-over-year revenue increase, along with record first quarter gross margin and net income reflects the significant gains we have made in improving the mix of our portfolio. SSD sales drove our outstanding results as we continued to gain share across the client and enterprise markets. Our retail revenue posted a record first quarter, with continued strong sales of high performance products.

Moving to details of our business results, combined client and enterprise SSD sales accounted for 28 percent of our first quarter revenue, with enterprise SSD revenue more than doubling on a year-over-year basis. Our expanded SAS SSD portfolio has enabled us to further strengthen our market position, and it has been the primary contributor to our enterprise SSD revenue growth. We are focused on leveraging our deep systems capabilities, coupled with the enduring benefits of our vertically integrated model, to bring substantial value to enterprise customers. We are helping customers accelerate applications, reduce total cost of ownership and build a more resilient infrastructure with our enterprise solutions.

Last month, we announced our CloudSpeed™ line of SATA SSDs with a broad set of new offerings that have been designed to deliver business-critical performance tailored to customer application workloads. The varied use case scenarios for enterprise SSDs are becoming increasingly prominent in data centers and in cloud computing environments. By combining our Guardian Technology™ Platform, which improves the endurance and reliability of SSDs with our leading-edge NAND Flash technology, SanDisk has gained the distinction of becoming the first SSD provider to ship 19 nanometer MLC-based enterprise SATA SSDs, capable of supporting 10 full drive writes per day. We expect our enterprise SATA SSDs to be a strong contributor to our enterprise revenue growth in 2014.

In the hyperscale portion of the enterprise business, we are building substantial momentum in engaging customers, clinching design wins and starting to build strategic relationships that will underpin the long-term growth of our enterprise business. We are already shipping product in volume to several customers and expect that these fast-growing customers will play an important role in our growth ahead.

Our client SSD revenue set another record in the first quarter, posting solid year-over-year growth in the process. In Q1, client SSD revenue benefitted from a demand mix shift by a major customer from our mobile custom embedded solution to our client SSD solution. Our increased share at several key OEM customers and our growing momentum in channel sales also contributed to our strong Q1 client SSD results. We have started customer qualification of our 1Y nanometer based client SSDs at many OEMs, and we are making good progress on that front.

Overall, I am extremely pleased with our execution in SSDs. We have made significant strides in expanding our market presence and in growing our total SSD revenue. We anticipate that enterprise SSDs will be our fastest growing product category in 2014 and are off to a great start towards exceeding our goal of delivering 25 percent of 2014 revenue, from enterprise and client SSDs combined.

Turning to mobile, our iNAND™ and iNAND MCP solutions posted strong revenue growth, offset by lower sales of custom embedded solutions, resulting in flat revenue

from total embedded solutions versus year-ago results. We expect the mix of the custom embedded solution revenues to increase starting in the second quarter and iNAND revenue should also grow throughout 2014.

At Mobile World Congress in February, we launched our next generation high-performance SanDisk iNAND Extreme™ embedded storage solution. This premium solution, manufactured on our 1Y nanometer technology, includes a unique dual-core storage controller, innovative new hardware and software data management algorithms and the latest eMMC 5.0 specification, all of which deliver significantly lower latency and higher bandwidth. These features enable smartphones and tablets to be more responsive and to smoothly run multiple applications simultaneously. We are pleased with our initial customer successes and expect iNAND Extreme to ship in several mobile devices this year.

Our strategic position within the China mobile market is continuing to increase with several recent noteworthy design wins at top China OEMs. Our iNAND and iNAND MCP solutions are now being sold to all major smartphone vendors in China. As many of these OEMs rapidly expand globally, we are pleased to be a strategic partner in their success.

In retail, we generated record first quarter sales from strong year-over-year growth in both USB flash drives and mobile cards. We launched the world's first and only 128

gigabyte microSD™ card, providing customers with immense portable storage capacity in a thumbnail sized package. Our ability to stack 16 memory chips along with a controller in such a constrained form factor speaks to our strong expertise in IC packaging and test. Our retail product innovation engine is in high gear as evidenced by the launch of the SanDisk Extreme PRO® USB 3.0 flash drive, a high-performance, high capacity USB offering and the SanDisk Extreme PRO® SDXC™ UHS-II, the world's fastest SD card capable of supporting 4K video recording. Many of the new products contributed to our first-quarter revenue. We are off to a good start and expect 2014 to be another solid year for our business in the retail channel.

Turning to technology and fab operations, our 1Y technology continues to ramp well and we expect to achieve more than half of our bit supply output on 1Y in the second quarter. In Q1, we also began shipments of embedded devices using our 1Y technology to OEM customers. Our 1Z technology continues to show promising early results and we expect production ramp to begin toward the end of 2014. We continue to make good progress on our BiCS 3D NAND technology as well.

From a wafer fab perspective, the shell for Phase 2 of Fab 5 is on track to be completed in mid-2014. As we have explained previously, the new cleanroom space in Phase 2 of Fab 5 will be primarily used to support the 1Y and 1Z technology transitions of our current wafer capacity. We expect related tool installations in Phase 2 of Fab 5 to begin in the third quarter. Additionally, a portion of the new cleanroom

space will be used for our BiCS 3D NAND pilot line to be established in the second half of 2015.

Regarding Phase 1 of Fab 5, we expect the cleanroom space to be fully utilized by the third quarter with equipment for the 1Y transition, BiCS development tools and a small increase in our total wafer capacity of less than 5%, which includes both new capacity and productivity improvements. For 2014, SanDisk supply bit growth estimate remains unchanged between 25 percent and 35 percent, and our estimate for industry supply bit growth of approximately 40 percent for 2014 remains unchanged as well. For 2014, we continue to expect overall healthy industry fundamentals.

To conclude, the first quarter marks an excellent start for the year. We continue to execute our business strategy with unwavering focus on profitable growth, cash flow and shareholder returns.

I look forward to seeing many of you at our upcoming Investor Day meeting. 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 Q1 results demonstrate the value of our broad product portfolio, our leading edge memory and system level technology and our success in improving our portfolio mix towards higher value solutions. This was our strongest

first quarter to date with record Q1 revenue of \$1.51 billion and record Q1 non-GAAP operating margin of 31.5%.

Our first quarter year-over-year revenue growth of 13% was driven by our increasing share in the fast growing markets for both client and enterprise SSDs. Our overall SSD sales in Q1 grew by 61% year-over-year, reaching 28% of our total Q1 revenue. We also delivered outstanding results in retail worldwide.

Our first quarter revenue mix by channel was 65% commercial and 35% retail, reflecting an increase in commercial mix of 3 percentage points both sequentially and year-over-year. Our commercial revenue was up 18% year-over-year and retail revenue grew 4% from Q1 last year. Q1 revenue bits grew 20% year-over-year and declined 10% sequentially.

Our year-over-year retail revenue increase was driven by strong growth in mobile cards and USBs, partially offset by a decline in imaging cards. Within commercial revenue, our embedded solutions revenue was flat year-over-year, with strong growth in iNAND solutions and a decline in custom embedded solution sales, driven by a Q1 shift in demand from a major customer toward our client SSD solutions. Our commercial sales strength was driven by year-over-year growth in both client and enterprise SSD revenue.

Turning to gross margin, we are delighted to report a 51% non-GAAP gross margin, our highest ever first quarter gross margin and 25 basis points above our strong Q413 non-GAAP gross margin. Our better-than-expected gross margin result stems from strong SSD product mix, a lower-than-expected mix of custom embedded revenue, and strong branded retail gross margins. Our blended cost per gigabyte improved 3% sequentially and 23% year-over-year. Our blended average selling price per gigabyte declined 3% sequentially and 7% year-over-year, benefitting from our ongoing strong portfolio mix shift. The yen rate in our cost of sales was approximately 99 as expected, compared to 97 in the fourth quarter.

Our Q1 non-GAAP operating expenses of \$297 million were slightly less than our forecast due to the timing of certain expenses, which we expect will be incurred in Q2.

Our Q1 non-GAAP operating margin was an outstanding 31.5%, nearly the same as we achieved in our seasonally strong fourth quarter. Our non-GAAP tax rate of 31.5% increased as expected from 2013 due primarily to the expiration of the federal R&D tax credit. Our non-GAAP net income set a first quarter record at \$330 million, up 60% year over year, and our non-GAAP EPS grew an outstanding 71% year-over-year to \$1.44.

Our Q1 cash flow from operations was \$358 million, and our cash used for capital investments was \$35 million, yielding free cash flow of \$323 million. During Q1 our

capital return to shareholders included \$90 million for repurchase of 1.3 million shares and \$52 million for dividends. Our share of the joint venture fab investments during Q1 was \$241 million, and these purchases were funded by joint venture working capital and \$97 million of new operating leases. Our off-balance sheet equipment lease guarantees now stand at \$556 million. On the balance sheet, I want to point out that we have reclassified our 2017 convertible debt to short-term because the note is redeemable in Q2 as a result of our stock price trading above the trigger price. We believe it is unlikely that holders will choose to convert given the market value of the securities.

I will now turn to forward-looking commentary.

Our second quarter revenue forecast is \$1 billion 550 million to \$1 billion 625 million, and our full year revenue forecast remains unchanged at \$6.4 to \$6.8 billion. In terms of product mix across the rest of 2014, we expect the strongest growth from both embedded solutions and enterprise SSDs. We expect that our embedded sales mix will gain relative to SSD mix as our iNAND solutions continue to gain momentum and with some expected shift in demand mix from the previously-mentioned major customer towards custom embedded solutions.

In terms of gross margins, we are increasing our full year non-GAAP gross margin range to 47% to 49%, up from our previous forecast of 45% to 48%, reflecting

continued strengthening of our product mix. We expect second quarter non-GAAP gross margins to also be in the range of 47% to 49%. This range for Q2 and the rest of the year is lower than our Q1 gross margin due primarily to the expected increase in our mix of custom embedded solutions. We are pleased that our forecasted 2014 non-GAAP gross margin range of 47% to 49% is similar or higher than our record 2013 non-GAAP gross margin.

We expect Q2 non-GAAP operating expenses of \$315 to \$325 million, and our full year operating expense forecast has increased slightly to a range of \$1 billion 250 million to \$1 billion 275 million. This leads to a forecasted non-GAAP operating margin range of 27% to 31% for the year, compared to 29% in 2013.

We expect our Q2 Other Income and tax rate to be similar to Q1. In terms of shares, in April we received final settlement on the \$1.0 billion ASR that we entered in 2013. We received another 623 thousand shares, which will be reflected in our Q2 share count. The total shares purchased under the ASR were 15.1 million at an average price of \$66.07 per share. Now that the ASR is complete, we expect to increase our rate of share repurchases beginning in Q2 relative to the \$90 million spent in Q1, and we expect that our 2014 repurchases will likely offset the dilution from employee equity incentives and the in-the-money warrants related to our 2017 convertible.

As Sanjay described, we are adding a small amount of wafer capacity in Fab 5 Phase 1 in 2014, and the cost of this was covered within the capex estimates we provided in January. As I normally do, I will provide further capex granularity at our May Investor Day.

In summary, we are off to a great start in 2014. We continue to expect a year of solid revenue growth and excellent profitability, and plan to utilize the majority of our free cash flow to enhance shareholder return via share buyback and dividends.

We are now happy to answer 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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