

From: "jeffrey E." <jeevacation@gmail.com>
To: Richard Kahn <[REDACTED]>
Subject: Fwd: Western Digital Bonds
Date: Wed, 01 Jun 2016 14:08:18 +0000

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From: Barrett, Paul S <[REDACTED]>
Date: Wed, Jun 1, 2016 at 10:03 AM
Subject: Western Digital Bonds
To: Brad Wechsler <[REDACTED]>
Cc: "Jeffrey Epstein (jeevacation@gmail.com)" <jeevacation@gmail.com>, Barrett Team <[REDACTED]>, "Nelson, Justin D" <[REDACTED]>

Brad

I know Chris showed this to you last week. I think Leon should consider \$1-2MM. The bonds are offered at 104 (ytm 9.58%). Currently the spread is around 824bps (BB+ rated) vs 401bps for the BB universe. I think we play it for +200bps of tightening (so around 8% upside on a 4yr duration bond plus any carry).

On March 30th, WDC issued \$5.225bn of debt to finance their \$17B acquisition of SanDisk. They issued \$1.875B of a 7.375% senior secured bond maturing on 4/1/23, and \$3.35B of a 10.5% senior unsecured bond maturing on 4/1/24.

Thesis:

Despite the secular decline in the traditional HDD market, you are being compensated. The combined company generates ~\$1.825B in free cash flow with leverage of 2.9x. Management has stated that it is their intention to achieve investment grade status and reduce leverage to 1.5x over the next 3-5 years. They expect \$1.1B of annual cost synergies by 2020 (\$500mm of which they expect within 18 months of the deal closing – most likely this quarter).

WDC stock is at \$5.02. Trades at 8x earnings. 4.45% dividend yield.

Pro Forma Financials:

	Pro Forma
Revenues	\$18.98bn
EBITDA	\$4.98bn

EBITDA Margin	26%
Leverage	2.9x
Free Cash Flow	\$1.825bn
Total Debt	\$14.4bn

**Source: Company Reports, Bloomberg, CreditSights

Company Description:

WDC is a leading developer, manufacturer and provider of data storage solutions. Their portfolio includes Hard Disk Drives (HDDs), Solid State Drives (SSDs), direct attached storage solutions, personal cloud network attached storage solutions, and public/private cloud data center storage solutions. They have more than a 40% market share in the HDD market. In October 2015, WDC announced that it would acquire SanDisk (SNDK), for ~\$17B. SanDisk is a leader in flash storage solutions, which allow digital information to be stored in a durable, compact form that retains data without power. WDC funded the transaction with cash on hand, newly issued stock (0.2387 shares of WDC for each share of SNDK), plus the new debt.

Paul

Paul Barrett | Managing Director | Global Investment Opportunities Group | **J.P. Morgan Securities LLC** | **J.P. Morgan Private Bank** | **J.P. Morgan Chase Bank N.A.**

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