



Seagate Technologies (STX)

Updated November 27th, 2023 by Jonathan Weber

Key Metrics

Current Price:	\$78	5 Year CAGR Estimate:	-0.8%	Market Cap:	\$16B
Fair Value Price:	\$50	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	12/20/23
% Fair Value:	156%	5 Year Valuation Multiple Estimate:	-8.5%	Dividend Payment Date:	01/09/24
Dividend Yield:	3.6%	5 Year Price Target	\$61	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	D	Rating:	Sell

Overview & Current Events

Seagate Technologies is a technology company that offers data storage products and data storage solutions to its customers. Its portfolio includes hard disk drives, solid state hybrid drives, solid state drives, storage subsystems and computing solutions. Seagate Technologies was founded in 1978, is headquartered in Dublin, Ireland.

Seagate Technologies' most recent earnings results were for its fiscal first quarter (fiscal 2024). The company generated revenues of \$1.45 billion during the quarter, which represents a decline of 29% compared to the prior year's quarter. Seagate Technologies missed the consensus analyst estimate, just like during the previous quarter, when Seagate underperformed expectations as well. Seagate's year-over-year performance improved sequentially, as the year-over-year decline had been even worse in the previous quarter.

Seagate Technologies' loss-per-share totaled \$0.22 during the first quarter, which was better than what the analyst community had feared. Earnings-per-share worsened a lot compared to the previous year's quarter, during which the company had earned \$0.48 on a per-share basis. Seagate Technologies also saw its cash flow generation decline compared to the previous year's period and on a sequential basis, as operating cash flow totaled \$130 million during the period. The company did not buy back shares at a meaningful pace, unlike during previous quarters. Since earnings-per-share in 2024 will likely be way below a "normal" level, and might even come in negative, depending on how the year goes, we use an earnings power estimate of \$5.00 per share for our calculations, as this is, we believe, more reflective of Seagate's ability to generate profits throughout the cycle.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$5.04	\$4.57	\$2.26	\$4.12	\$5.52	\$4.82	\$4.95	\$5.64	\$8.18	\$0.19	\$5.00	\$6.08
DPS	\$1.67	\$2.05	\$2.43	\$2.52	\$2.52	\$2.52	\$2.60	\$2.68	\$2.80	\$2.80	\$2.80	\$2.80
Shares¹	327	315	299	292	287	278	260	233	217	207	205	200

Seagate Technologies' profitability varied widely over the last decade, from a small net loss during the last financial crisis up to record profits in 2012. The company's overall performance has been quite inconsistent in the past.

Following Seagate Technologies' strong earnings growth in calendar year 2018, 2019 was a down year for the company, due to generally weaker chip and memory markets. Things started to improve during the last couple of quarters, though, and 2020 was a more profitable year. In the past, Seagate Technologies has lowered its operating expenses in order to grow its profits. It is, however, unclear whether the company can continue to lower its R&D and sales expenses without hurting revenue growth in the long run. We believe that it is prudent to assume that more expense cutting will be harder to achieve moving forward, margins will thus not grow much in the future. Over the coming years, Seagate Technologies should benefit from demand growth for storage products. Over the last five years, demand for Nearline HDDs, an intermediate type of data storage that makes up roughly half of Seagate Technologies' HDD sales, rose by 35% annually. Tailwinds such as the IoT result in a positive long-term sales growth outlook. Analysts are currently forecasting a big profit decline for fiscal 2023, but profits should grow meaningfully beyond 2023 from this lower basis.

¹ In Millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	9.9	12.9	15.8	9.6	10.1	10.0	9.7	15.6	8.7	326	15.6	10.0
Avg. Yld.	3.4%	3.5%	6.8%	6.4%	4.4%	5.3%	5.4%	3.0%	3.9%	4.5%	3.6%	4.6%

Seagate Technologies has been valued at a price-to-earnings multiple that has moved in a very wide range. Today, shares are trading for around 15-16 times our 2024 earnings power estimate, which is ahead of our fair earnings multiple estimate. We therefore believe that multiple compression will be a headwind going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	33.1%	44.9%	108%	61.2%	45.7%	52.1%	52.1%	47.5%	34.2%	NMF	56.0%	46.0%

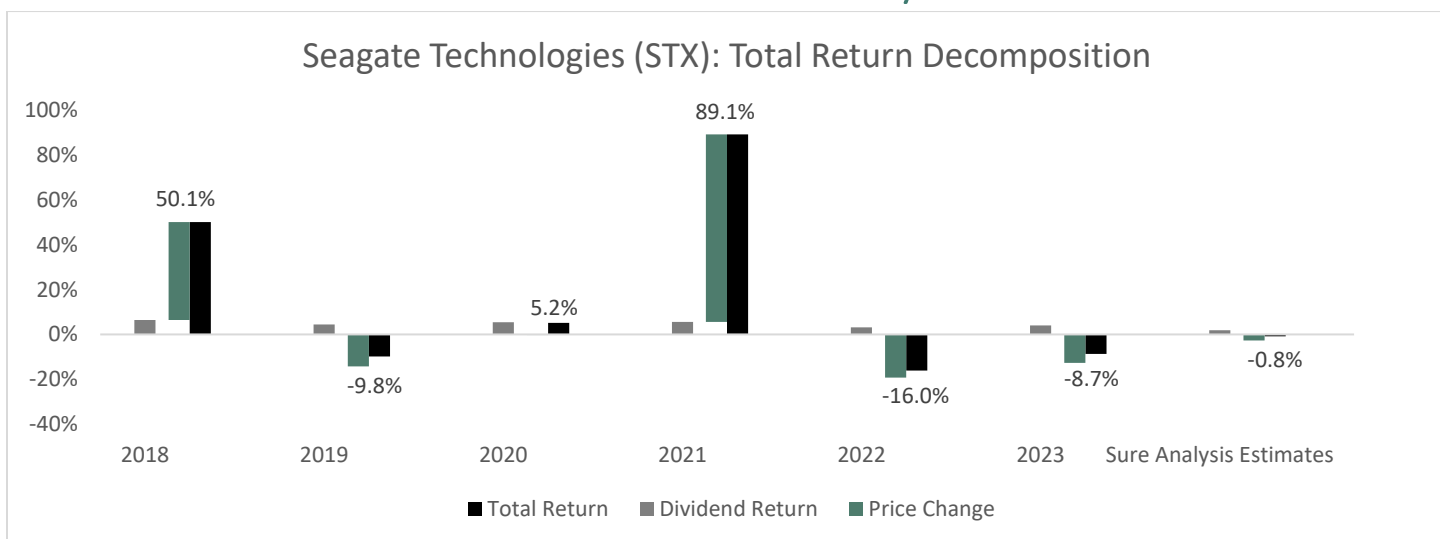
Seagate Technologies has paid growing or stable dividends since 2011. Since then, the dividend payout ratio has moved in a wide range of as low as 13% to more than 100%. Based on analyst estimates for this year's earnings, the company will pay out more than its net profits via dividends, but the payout ratio relative to our earnings power estimate looks reasonable. Since cash flow oftentimes is higher than profit at Seagate, the dividend could be sustained.

Seagate Technologies is one of the largest data storage companies in the world. It therefore is a major player in this relatively narrow, focused industry. Due to consolidation over the last few years, the industry has turned into an oligopoly, which has been beneficial for margins, and which limits competitive threats. Demand for storage products, and especially the prices for Seagate's products can be cyclical, which is why profits have been quite volatile in the past. Seagate Technologies' business will, in all likelihood, always be cyclical, which is why investors should assume that share prices can be quite volatile, although it should be noted that Seagate has weathered the coronavirus crisis well.

Final Thoughts & Recommendation

The industry outlook for Seagate Technologies is not too bad, as the amount of data that is recorded and that needs to be stored continues to rise rapidly around the globe. The company's results will always be cyclical, however, which makes Seagate's shares volatile. The company is experiencing a considerable downturn in its end markets right now. Shares do not promise compelling returns at current prices, which is why we rate Seagate Technologies a sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	14,351	13,724	13,739	11,160	10,771	11,184	10,390	10,509	10,681	11,661
Gross Profit	3,940	3,846	3,809	2,615	3,174	3,364	2,932	2,842	2,917	3,469
Gross Margin	27.5%	28.0%	27.7%	23.4%	29.5%	30.1%	28.2%	27.0%	27.3%	29.7%
SG&A Exp.	635	722	857	635	606	562	453	473	502	559
D&A Exp.	873	879	841	815	749	598	541	379	397	451
Operating Profit	2,093	1,800	1,470	620	1,232	1,723	1,465	1,382	1,500	1,958
Operating Margin	14.6%	13.1%	10.7%	5.6%	11.4%	15.4%	14.1%	13.2%	14.0%	16.8%
Net Profit	1,838	1,570	1,742	248	772	1,182	2,012	1,004	1,314	1,649
Net Margin	12.8%	11.4%	12.7%	2.2%	7.2%	10.6%	19.4%	9.6%	12.3%	14.1%
Free Cash Flow	2,261	1,999	1,903	1,093	1,482	1,747	1,159	1,129	1,128	1,276
Income Tax	(7)	(14)	228	26	43	236	(640)	28	34	30

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	9,243	9,492	9,845	8,213	9,268	9,410	8,885	8,930	8,675	8,944
Cash & Equivalents	1,708	2,634	2,479	1,125	2,539	1,853	2,220	1,722	1,209	615
Accounts Receivable	1,670	1,729	1,735	1,318	1,199	1,184	989	1,115	1,158	1,532
Inventories	854	985	993	868	982	1,053	970	1,142	1,204	1,565
Goodwill & Int. Ass.	881	896	1,244	1,685	1,519	1,425	1,348	1,295	1,266	1,246
Total Liabilities	5,737	6,660	6,827	6,620	7,904	7,745	6,723	7,143	8,044	8,835
Accounts Payable	1,690	1,549	1,540	1,517	1,626	1,728	1,420	1,808	1,725	2,058
Long-Term Debt	2,777	3,920	4,155	4,091	5,021	4,819	4,253	4,175	5,139	5,646
Shareholder's Equity	3,495	2,832	3,018	1,593	1,364	1,665	2,162	1,787	631	109
LTD/E Ratio	0.79	1.38	1.38	2.57	3.68	2.89	1.97	2.34	8.14	51.80

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	19.0%	16.8%	18.0%	2.7%	8.8%	12.7%	22.0%	11.3%	14.9%	18.7%
Return on Equity	52.6%	49.6%	59.6%	10.8%	52.2%	78.0%	105.1%	50.8%	108.7%	445.7%
ROIC	29.1%	24.1%	25.0%	3.9%	12.8%	18.4%	31.2%	16.2%	22.4%	28.6%
Shares Out.	359	327	315	299	292	287	278	260	233	217
Revenue/Share	37.57	39.55	41.51	36.95	36.02	38.30	36.46	39.66	43.60	52.06
FCF/Share	5.92	5.76	5.75	3.62	4.96	5.98	4.07	4.26	4.60	5.70

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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