



NetApp Inc. (NTAP)

Updated December 11th, 2023 by Quinn Mohammed

Key Metrics

Current Price:	\$90	5 Year CAGR Estimate:	8.0%	Market Cap:	\$18 B
Fair Value Price:	\$92	5 Year Growth Estimate:	5.5%	Ex-Dividend Date:	01/04/24
% Fair Value:	98%	5 Year Valuation Multiple Estimate:	0.5%	Dividend Payment Date:	01/24/24
Dividend Yield:	2.2%	5 Year Price Target	\$121	Years Of Dividend Growth:	8
Dividend Risk Score:	C	Retirement Suitability Score:	D	Rating:	Hold

Overview & Current Events

NetApp Inc., formerly Network Appliance, was founded in 1992 to address the growing need for data storage. Today, the company calls itself the “data authority for hybrid cloud” providing services to simplify and empower a company’s use of its data, as well as accelerate their digital transformation. The \$18 billion market cap company generated over \$6.3 billion in sales last fiscal year and earned \$1.23 billion in adjusted net income.

On November 28th, 2023, NetApp reported Q2 fiscal year 2024 results for the period ending October 27th, 2023. For the quarter, the company generated net revenues of \$1.56 billion, down 6% year-over-year. Adjusted net income equaled \$334 million or \$1.58 per share compared to \$326 million or \$1.48 per share in the second quarter of FY 2023. Of note, NetApp’s Public Cloud annualized revenue run rate grew by just 1% year-over-year to \$609 million, and the All-flash array annualized net revenue run rate increased 1% year-over-year to \$3.2 billion. In the second quarter, the company returned \$403 million to shareholders in share repurchases and dividends.

Additionally, NetApp provided Q3 and FY 2024 guidance. For the upcoming quarter the company expects \$1.64 to \$1.74 in adjusted earnings-per share. For the year, NetApp expects adjusted earnings-per-share of \$6.05 to \$6.25, well above its prior estimate.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$1.83	\$1.75	\$0.77	\$1.81	\$3.56	\$4.52	\$4.05	\$4.06	\$5.28	\$5.59	\$6.15	\$8.04
DPS	\$0.60	\$0.66	\$0.72	\$0.76	\$0.80	\$1.60	\$1.92	\$1.96	\$2.00	\$2.00	\$2.00	\$2.55
Shares¹	325	306	281	269	263	240	222	226	229	220	215	200

From 2010 through 2016, NetApp barely improved earnings-per-share. However, since 2016, things have improved dramatically due to reasonable revenue growth, a much higher operating margin, lower share count and lower tax rate.

NetApp certainly has growth opportunities available, as businesses migrate to public and private clouds. Moreover, increased spend in the industry related to upgrading to faster, higher capacity and more efficient storage solutions ought to bode well for the business, especially in the short term. However, NetApp operates in an industry with large storage competitors like Dell, VMware, Cisco, HPE and IBM, which gives us pause on the long-term growth story. Further, NetApp’s legacy network storage business is in decline, requiring the cloud storage segment to do the heavy lifting in terms of overall growth.

The company continued growing earnings despite the COVID-19 pandemic, and results held up well in the following year as well. The company posted excellent results in fiscal 2022 and 2023, and management is expecting stronger results in fiscal 2024 as well. We are forecasting \$6.15 in earnings-per-share to go along with a 5.5% intermediate-term growth rate.

While the company paid a \$2 dividend for both fiscal 2022 and 2023, the company has continuously increased its dividend on a calendar year 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	21.8	22.2	38.1	18.5	17.3	16.2	13.6	19.7	13.9	11.6	14.6	15.0
Avg. Yld.	1.5%	1.7%	2.5%	2.3%	1.6%	2.2%	3.5%	2.5%	2.4%	3.0%	2.2%	2.1%

NetApp's historical valuation is skewed due to a share price that held up reasonably as earnings-per-share oscillated significantly. We are using 15 times earnings as a fair value baseline, which is in line with the last five years. With shares now trading a bit lower than 15 times earnings, this implies a small valuation tailwind.

NetApp initiated its dividend in 2013 and has since grown it tremendously. In 2018, NetApp doubled its dividend and in 2019 the payout was increased by 20%, followed by small increases in 2021 and 2022. Now that the dividend makes up a larger percentage of expected earnings, we would anticipate future dividend growth to be more in line with the company's earnings-per-share growth.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	33%	38%	94%	42%	22%	35%	47%	48%	38%	36%	33%	32%

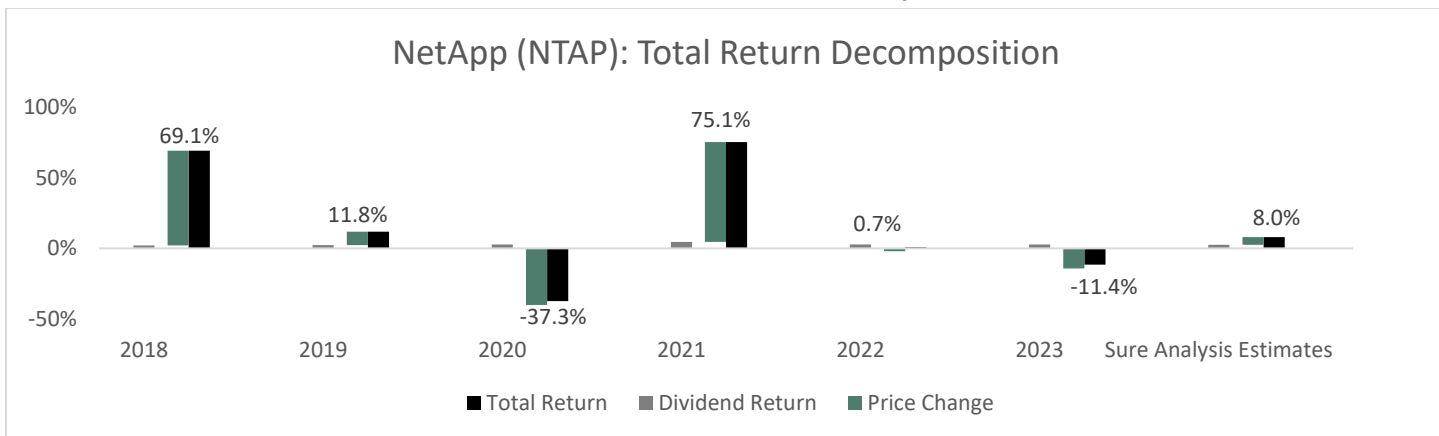
NetApp is in a prime position to take advantage of storage migration after a series of acquisitions in the past couple of years, especially related to providing all-flash arrays and strengthening the company's cloud-based software. With that said, it should be noted that this short-term lead could be commoditized down the line.

As of the most recent quarter, NetApp held \$2.6 billion in cash and investments, \$4.0 billion in current assets and \$9.1 billion in total assets compared to \$3.7 billion in current liabilities and \$8.3 billion in total liabilities. We believe the strong cash position is important in technology industries, as it allows for greater flexibility in a rapidly changing environment.

Final Thoughts & Recommendation

Shares of NetApp have risen 48% year-to-date, and the company has surpassed analysts' earnings expectations for fifteen quarters straight. However, we have reservations about NetApp's long-term growth prospects for three reasons: the rapid pace of technological development, the potential of new products being commoditized, and having to compete against large and capable competitors. Still, we are forecasting 8.0% total return potential stemming from 5.5% earnings-per-share growth, the 2.2% dividend yield, and a potential valuation tailwind. Shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	6325	6123	5546	5491	5919	6146	5412	5744	6318	6362
Gross Profit	3919	3833	3373	3364	3709	3945	3623	3815	4220	4209
Gross Margin	62.0%	62.6%	60.8%	61.3%	62.7%	64.2%	66.9%	66.4%	66.8%	66.2%
SG&A Exp.	2179	2197	2099	1922	1986	1935	1848	2001	2136	2094
D&A Exp.	334	307	279	226	198	197	193	207	194	248
Operating Profit	822	716	413	663	940	1183	928	933	1203	1159
Operating Margin	13.0%	11.7%	7.4%	12.1%	15.9%	19.2%	17.1%	16.2%	19.0%	18.2%
Net Profit	638	560	229	481	116	1169	819	730	937	1274
Net Margin	10.1%	9.1%	4.1%	8.8%	2.0%	19.0%	15.1%	12.7%	14.8%	20.0%
Free Cash Flow	1129	1093	814	811	1333	1168	936	1171	985	868
Income Tax	103	153	116	140	1083	99	125	232	158	-208

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	9214	9401	10037	9493	9991	8741	7522	9360	10026	9818
Cash & Equivalents	2291	1922	2868	2444	2941	2325	2658	4529	4112	
Accounts Receivable	856	779	813	731	1047	1216	973	945	1230	987
Inventories	122	146	98	163	122	131	145	114	204	167
Goodwill & Int. Ass.	1110	1117	1856	1815	1833	1782	1822	2140	2488	2940
Total Liabilities	5427	5987	7156	6713	7715	7651	7280	8675	9188	8659
Accounts Payable	247	284	254	347	609	542	426	420	607	392
Long-Term Debt	990	1487	2339	1993	1926	1793	1668	2632	2636	2389
Shareholder's Equity	3787	3414	2881	2780	2276	1090	242	685	838	1159
LTD/E Ratio	1.43	1.75	2.48	2.41	3.39	7.02	30.08	12.66	3.15	2.06

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	6.2%	6.0%	2.4%	4.9%	1.2%	12.5%	10.1%	8.6%	9.7%	12.8%
Return on Equity	15.0%	15.6%	7.3%	17.0%	4.6%	69.5%	123.0%	157.5%	123.0%	127.6%
ROIC	10.9%	11.6%	4.5%	9.6%	2.6%	33.0%	34.2%	27.9%	27.6%	36.3%
Shares Out.	325	306	281	269	263	240	222	226	229	220
Revenue/Share	18.18	19.07	18.67	19.54	21.45	23.73	23.23	25.42	27.59	28.92
FCF/Share	3.24	3.41	2.74	2.89	4.83	4.51	4.02	5.18	4.30	3.95

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

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