# Seagate Technologies (STX)

*Updated February 5th, 2024 by Jonathan Weber*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $86 | **5 Year CAGR Estimate:** | -2.7% | **Market Cap:** | $18 B |
| **Fair Value Price:** | $50 | **5 Year Growth Estimate:** | 4.0% | **Ex-Dividend Date:** | 03/20/24 |
| **% Fair Value:** | 172% | **5 Year Valuation Multiple Estimate:** | -10.3% | **Dividend Payment Date:** | 04/04/24 |
| **Dividend Yield:** | 3.3% | **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' reported its fiscal 2024 second quarter earnings results on January 24. The company generated revenues of $1.56 billion during the quarter, which represents a decline of 18% compared to the prior year's quarter. Seagate Technologies beat the consensus analyst estimate, unlike during the previous quarter, when Seagate underperformed expectations. Seagate's year-over-year performance improved sequentially, as the year-over-year decline had been worse in the previous quarter.

Seagate Technologies' earnings-per-share totaled $0.12 during the second quarter, which was better than what the analyst community had expected. Earnings-per-share worsened compared to the previous year's quarter, during which the company had earned $0.16 on a per-share basis. Seagate Technologies also saw its cash flow generation decline compared to the previous year's period, as operating cash flow totaled $170 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*** |
| **Shares[1]** | 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.

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[1] In Millions

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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 | ***17.2*** | ***10.0*** |
| **Avg. Yld.** | 3.4% | 3.5% | 6.8% | 6.4% | 4.4% | 5.3% | 5.4% | 3.0% | 3.9% | 4.5% | ***3.3%*** | ***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 17 times our 2024 earnings power estimate, which is way ahead of our fair earnings multiple estimate. We therefore believe that multiple compression will be a major 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%*** |

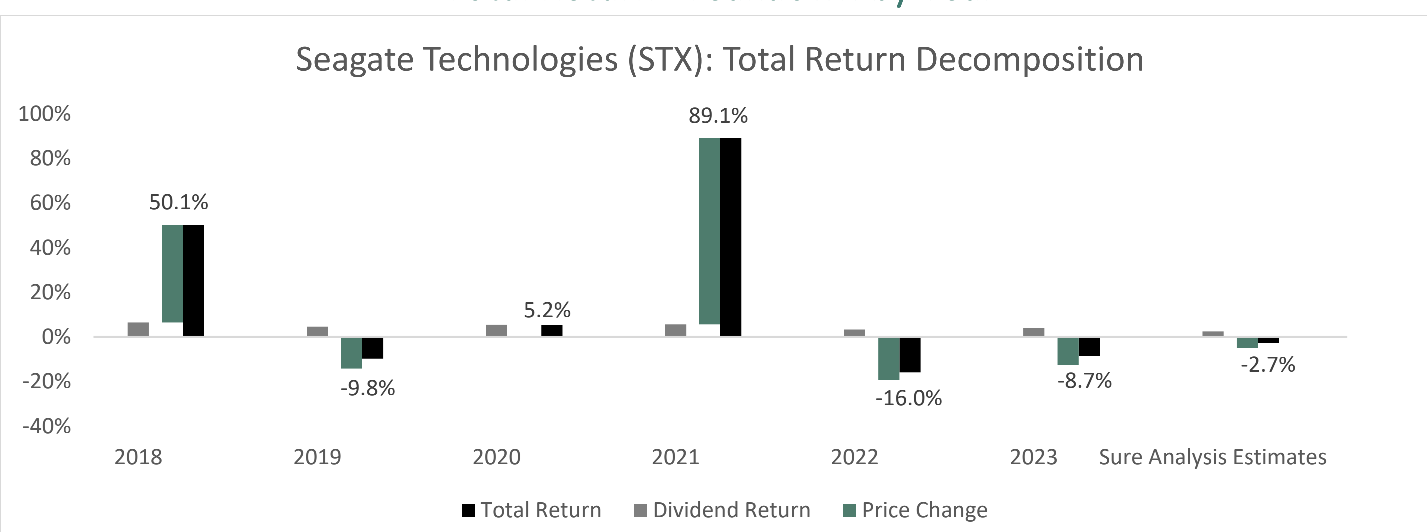
Seagate Technologies has paid growing or stable dividends since 2011. Since then, the dividend payout ratio has moved in a wide range of as low as 13% to more than 100%. Based on analyst estimates for this year's earnings, the company will pay out more than its net profits via dividends, but the payout 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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*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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## Income Statement Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 13,724 | 13,739 | 11,160 | 10,771 | 11,184 | 10,390 | 10,509 | 10,681 | 11,661 | 7,384 |
| Gross Profit | 3,846 | 3,809 | 2,615 | 3,174 | 3,364 | 2,932 | 2,842 | 2,917 | 3,469 | 1,351 |
| Gross Margin | 28.0% | 27.7% | 23.4% | 29.5% | 30.1% | 28.2% | 27.0% | 27.3% | 29.7% | 18.3% |
| SG&A Exp. | 722 | 857 | 635 | 606 | 562 | 453 | 473 | 502 | 559 | 491 |
| D&A Exp. | 879 | 841 | 815 | 749 | 598 | 541 | 379 | 397 | 451 | 513 |
| Operating Profit | 1,800 | 1,470 | 620 | 1,232 | 1,723 | 1,465 | 1,382 | 1,500 | 1,958 | 60 |
| Operating Margin | 13.1% | 10.7% | 5.6% | 11.4% | 15.4% | 14.1% | 13.2% | 14.0% | 16.8% | 0.8% |
| Net Profit | 1,570 | 1,742 | 248 | 772 | 1,182 | 2,012 | 1,004 | 1,314 | 1,649 | (529) |
| Net Margin | 11.4% | 12.7% | 2.2% | 7.2% | 10.6% | 19.4% | 9.6% | 12.3% | 14.1% | -7.2% |
| Free Cash Flow | 1,999 | 1,903 | 1,093 | 1,482 | 1,747 | 1,159 | 1,129 | 1,128 | 1,276 | 626 |
| Income Tax | (14) | 228 | 26 | 43 | 236 | (640) | 28 | 34 | 30 | 33 |

## Balance Sheet Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Assets | 9,492 | 9,845 | 8,213 | 9,268 | 9,410 | 8,885 | 8,930 | 8,675 | 8,944 | 7,556 |
| Cash & Equivalents | 2,634 | 2,479 | 1,125 | 2,539 | 1,853 | 2,220 | 1,722 | 1,209 | 615 | 786 |
| Accounts Receivable | 1,729 | 1,735 | 1,318 | 1,199 | 1,184 | 989 | 1,115 | 1,158 | 1,532 | 621 |
| Inventories | 985 | 993 | 868 | 982 | 1,053 | 970 | 1,142 | 1,204 | 1,565 | 1,140 |
| Goodwill & Int. Ass. | 896 | 1,244 | 1,685 | 1,519 | 1,425 | 1,348 | 1,295 | 1,266 | 1,246 | 1,237 |
| Total Liabilities | 6,660 | 6,827 | 6,620 | 7,904 | 7,745 | 6,723 | 7,143 | 8,044 | 8,835 | 8,755 |
| Accounts Payable | 1,549 | 1,540 | 1,517 | 1,626 | 1,728 | 1,420 | 1,808 | 1,725 | 2,058 | 1,603 |
| Long-Term Debt | 3,920 | 4,155 | 4,091 | 5,021 | 4,819 | 4,253 | 4,175 | 5,139 | 5,646 | 5,451 |
| Shareholder's Equity | 2,832 | 3,018 | 1,593 | 1,364 | 1,665 | 2,162 | 1,787 | 631 | 109 | (1,199) |
| LTD/E Ratio | 1.38 | 1.38 | 2.57 | 3.68 | 2.89 | 1.97 | 2.34 | 8.14 | 51.80 | (4.55) |

## Profitability & Per Share Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| Return on Assets | 16.8% | 18.0% | 2.7% | 8.8% | 12.7% | 22.0% | 11.3% | 14.9% | 18.7% | -6.4% |
| Return on Equity | 49.6% | 59.6% | 10.8% | 52.2% | 78.0% | 105.1% | 50.8% | 108.7% | 445.7% | |
| ROIC | 24.1% | 25.0% | 3.9% | 12.8% | 18.4% | 31.2% | 16.2% | 22.4% | 28.6% | -10.6% |
| Shares Out. | 327 | 315 | 299 | 292 | 287 | 278 | 260 | 233 | 217 | 207 |
| Revenue/Share | 39.55 | 41.51 | 36.95 | 36.02 | 38.30 | 36.46 | 39.66 | 43.60 | 52.06 | 35.67 |
| FCF/Share | 5.76 | 5.75 | 3.62 | 4.96 | 5.98 | 4.07 | 4.26 | 4.60 | 5.70 | 3.02 |

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