Seagate Technologies (STX)

Updated February 10th, 2025 by Nathan Parsh

Key Metrics

Current Price:	$96	**5 Year CAGR Estimate:**	3.6%	**Market Cap:**	$20.4 B
Fair Value Price:	$82	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	03/19/25
% Fair Value:	117%	**5 Year Valuation Multiple Estimate:**	-3.2%	**Dividend Payment Date:**	04/02/25
Dividend Yield:	3.0%	**5 Year Price Target**	$99	**Years Of Dividend Growth:**	1
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Sell

Overview & Current Events

Seagate Technologies is a provides data storage products and data storage solutions to its customers. The company's portfolio of products offers a variety of products that meet the needs of its customers, such as hard disk drives, solid state hybrid drives, solid state drives, storage subsystems and computing solutions. Seagate Technologies was founded in 1978 and is headquartered in Dublin, Ireland. The company generated $6.6 billion of revenue last fiscal year and trades with a market capitalization above $20 billion.

On January 21st, 2025, Seagate Technologies announced that it was increasing its quarterly dividend 2.9% to $0.72 per share.

That same day, Seagate Technologies reported results for the second quarter of fiscal year 2025 for the period ending December 27th, 2024. For the quarter, revenue surged more than 49% to $2.33 billion, which was $10 million more than expected. Adjusted earnings-per-share of $2.03 compared to $0.12 in the prior fiscal year and was $0.15 ahead of estimates.

Growth was powered by strength in nearline cloud and enterprise markets. Revenue was up 7% sequentially as well as the company has now seen revenue growth in seven consecutive quarters. The adjusted gross margin improved ~220 basis points to 35.5% on a sequential basis, with the adjusted operating margin improving ~270 basis points to 23.1%. Adjusted EBITDA improved 19% to $591 million. The company's free cash flow reached $150 million, up from $27 million previously.

Seagate Technologies provided guidance for third quarter of fiscal year 2025 as well, with the company expecting revenue of ~$2.10 billion and adjusted earnings-per-share in a range of $1.50 to $1.90. Analyst expect that the company will earn $7.43 in 2025, which mark significant improvement from the past few years.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$4.57	$2.26	$4.12	$5.52	$4.82	$4.95	$5.64	$8.18	$0.19	$1.58	***$7.43***	***$9.04***
DPS	$2.05	$2.43	$2.52	$2.52	$2.52	$2.60	$2.68	$2.80	$2.80	$2.80	***$2.88***	***$3.18***
Shares[1]	315	299	292	287	278	260	233	217	207	210	***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. Seagate Technologies' earnings-per-share have declined by 11% over the last decade, but we believe the company can produce EPS growth of 4% annually over the next five years.

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. The past few years have been weaker, but the company has guided towards growth for the current fiscal year. In the past, Seagate Technologies has lowered its operating expenses in order to grow

[1] In Millions

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. This demand was seen in the most recent quarter. Over the last five years, demand for Nearline HDDs, an intermediate type of data storage that makes up a sizable portion Seagate Technologies' HDD sales, has risen by a significant amount. Tailwinds such as the IoT result in a positive long-term sales growth outlook.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	12.9	15.8	9.6	10.1	10.0	9.7	15.6	8.7	326	65.4	***12.9***	***11.0***
Avg. Yld.	3.5%	6.8%	6.4%	4.4%	5.3%	5.4%	3.0%	3.9%	4.5%	2.7%	***3.0%***	***3.2%***

Seagate Technologies has been valued at a price-to-earnings multiple that has moved in a very wide range. Excluding the last two years, the stock has an average P/E of 12. Today, shares are trading at 12.9 times earnings estimates, which is above our target P/E of 11. Reaching our target valuation by 2030 would reduce annual returns by 3.2% over this period. Shares yield 3.0%, but dividend growth has been limited over the last decade.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	45%	108%	61%	46%	52%	53%	48%	34%	NMF	177%	***39%***	***35%***

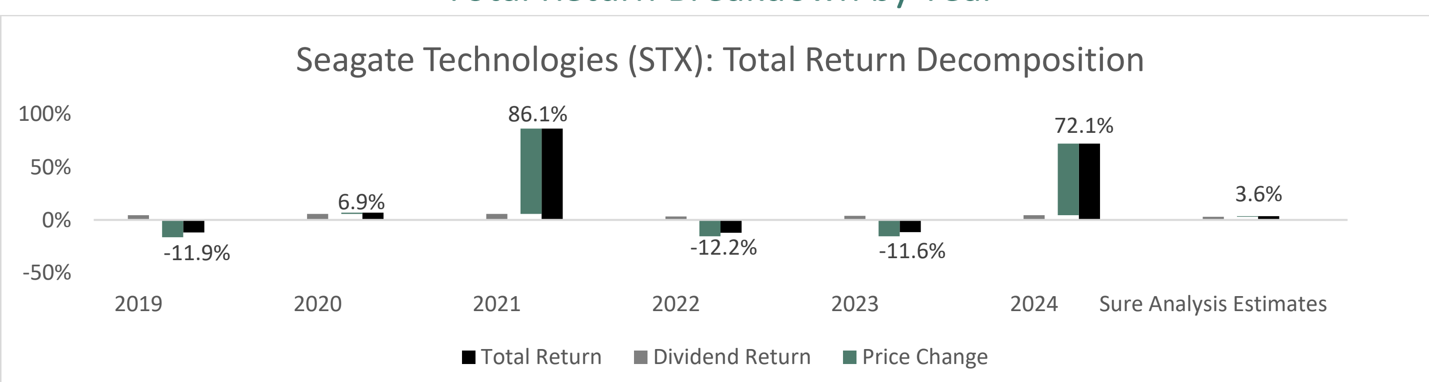
While Seagate Technologies has paid growing or stable dividends since 2011, the dividend payout ratio has ballooned towards unsustainable levels. This is especially true for the last two years. The fact that Seagate Technologies has managed to at least maintain its dividend over the last 10 years is impressive, but those looking for aggressive dividend growth will likely be disappointed by the company.

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.

Final Thoughts & Recommendation

Following second quarter results, Seagate Technologies is projected to return 3.6% per year through fiscal year 2030. This estimate stems from earnings growth of 4% and a start dividend yield of 3.0% that are partially offset by multiple compression. Shares earn a sell rating due to projected returns.

Total Return Breakdown by Year



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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	13,739	11,160	10,771	11,184	10,390	10,509	10,681	11,661	7,384	6,551
Gross Profit	3,809	2,615	3,174	3,364	2,932	2,842	2,917	3,469	1,351	1,536
Gross Margin	27.7%	23.4%	29.5%	30.1%	28.2%	27.0%	27.3%	29.7%	18.3%	23.4%
SG&A Exp.	857	635	606	562	453	473	502	559	491	460
D&A Exp.	841	815	749	598	541	379	397	451	513	264
Operating Profit	1,470	620	1,232	1,723	1,465	1,382	1,500	1,958	60	422
Operating Margin	10.7%	5.6%	11.4%	15.4%	14.1%	13.2%	14.0%	16.8%	0.8%	6.4%
Net Profit	1,742	248	772	1,182	2,012	1,004	1,314	1,649	(529)	335
Net Margin	12.7%	2.2%	7.2%	10.6%	19.4%	9.6%	12.3%	14.1%	-7.2%	5.1%
Free Cash Flow	1,903	1,093	1,482	1,747	1,159	1,129	1,128	1,276	626	664
Income Tax	228	26	43	236	(640)	28	34	30	33	110

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	9,845	8,213	9,268	9,410	8,885	8,930	8,675	8,944	7,556	7,739
Cash & Equivalents	2,479	1,125	2,539	1,853	2,220	1,722	1,209	615	786	1,358
Accounts Receivable	1,735	1,318	1,199	1,184	989	1,115	1,158	1,532	621	429
Inventories	993	868	982	1,053	970	1,142	1,204	1,565	1,140	1,239
Goodwill & Int. Ass.	1,244	1,685	1,519	1,425	1,348	1,295	1,266	1,246	1,237	1,219
Total Liabilities	6,827	6,620	7,904	7,745	6,723	7,143	8,044	8,835	8,755	9,230
Accounts Payable	1,540	1,517	1,626	1,728	1,420	1,808	1,725	2,058	1,603	1,786
Long-Term Debt	4,155	4,091	5,021	4,819	4,253	4,175	5,139	5,646	5,451	5,674
Shareholder's Equity	3,018	1,593	1,364	1,665	2,162	1,787	631	109	(1,199)	(1,491)
LTD/E Ratio	1.38	2.57	3.68	2.89	1.97	2.34	8.14	51.80	(4.55)	(3.81)

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	18.0%	2.7%	8.8%	12.7%	22.0%	11.3%	14.9%	18.7%	-6.4%	4.4%
Return on Equity	59.6%	10.8%	52.2%	78.0%	105.1%	50.8%	108.7%	445.7%		
ROIC	25.0%	3.9%	12.8%	18.4%	31.2%	16.2%	22.4%	28.6%	-10.6%	7.9%
Shares Out.	315	299	292	287	278	260	233	217	207	210
Revenue/Share	41.51	36.95	36.02	38.30	36.46	39.66	43.60	52.06	35.67	30.90
FCF/Share	5.75	3.62	4.96	5.98	4.07	4.26	4.60	5.70	3.02	3.13

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