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Mar 27, 2020

Seagate Technology Plc (STX)

$47.97 (As of 03/26/20)

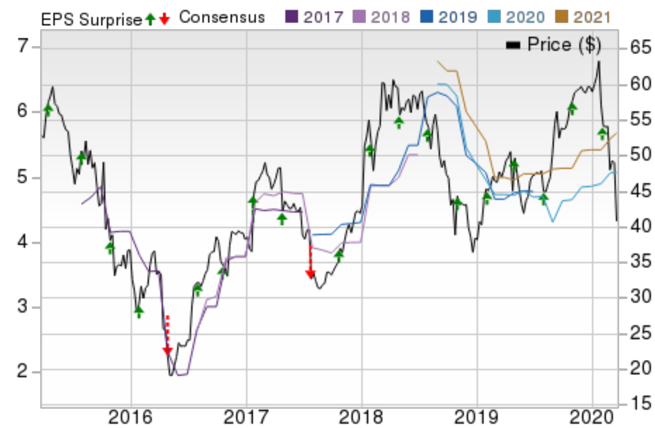
Price Target (6-12 Months): **$55.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 03/25/20) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:B
	Value: A | Growth: C | Momentum: C	

Summary

Seagate is expected to benefit from robust demand for 16-terabyte products, as production to higher volumes improves. Increasing traction for mass storage solutions across edge and enterprise markets is a tailwind. Also, improving trend in PC shipments is a positive. We believe Seagate's NAND-supply deal with Toshiba will help it develop advanced HDD, SSD and hybrid solutions. Further, rapid adoption of nearline solutions is expected to boost the top line. Additionally, higher HDD demand from mass capacity storage vertical driven by data growth at the edge and in the cloud holds promise. Notably, shares of the company have outperformed the industry in the past year. However, stiff competition from its peers in the disk drive market might lead to pricing pressure and limit margin expansion.

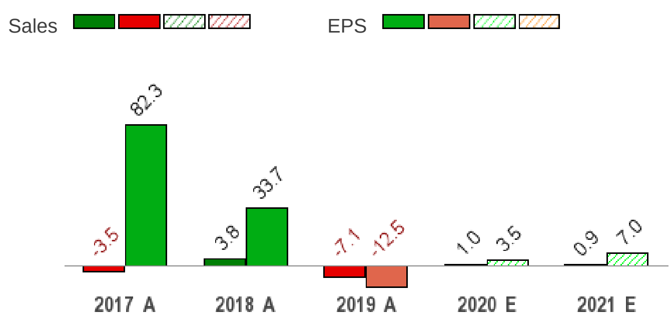
Price, Consensus & Surprise



Data Overview

52 Week High-Low	**$64.17 - $39.02**
20 Day Average Volume (sh)	**4,148,557**
Market Cap	**$12.5 B**
YTD Price Change	**-19.4%**
Beta	**1.58**
Dividend / Div Yld	**$2.60 / 5.4%**
Industry	**Computer- Storage Devices**
Zacks Industry Rank	**Top 5% (13 out of 253)**
Last EPS Surprise	**3.1%**
Last Sales Surprise	**-0.9%**
EPS F1 Est- 4 week change	**-1.5%**
Expected Report Date	**05/05/2020**
Earnings ESP	**-4.4%**
P/E TTM	**11.8**
P/E F1	**9.6**
PEG F1	**7.9**
P/S TTM	**1.3**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	2,690 E	2,797 E	2,660 E	2,677 E	10,590 E
2020	2,578 A	2,696 A	2,636 E	2,600 E	10,493 E
2019	2,991 A	2,715 A	2,313 A	2,371 A	10,390 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$1.36 E	$1.47 E	$1.27 E	$1.29 E	$5.34 E
2020	$1.03 A	$1.35 A	$1.31 E	$1.27 E	$4.99 E
2019	$1.70 A	$1.41 A	$0.83 A	$0.86 A	$4.82 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/26/2020. The reports text is as of 03/27/2020.

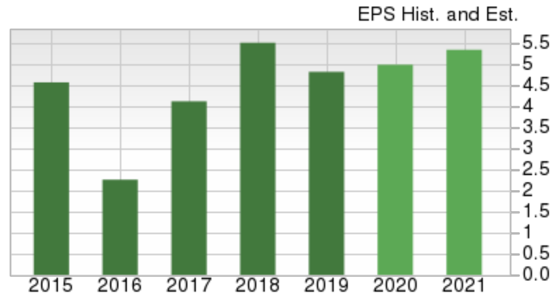
Overview

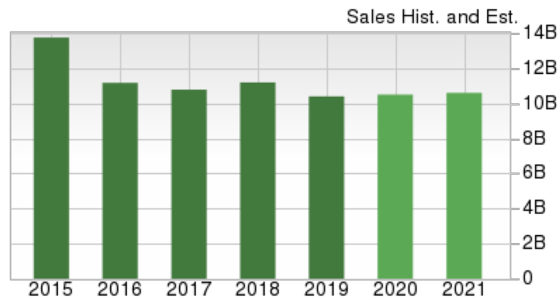
Headquartered at Dublin, Ireland, Seagate is the second-largest manufacturer of hard disk drives (HDDs) in the U.S. HDDs are used as the primary medium for storing electronic information in systems ranging from desktop computers and consumer electronics to data centers delivering information over corporate networks and the Internet.

Seagate also develops other electronic data storage products such as SSD (solid state drive) and solid state hybrid drives (SSHD). The company has an industry-leading vertically-integrated operation with internal control over the majority of its key component suppliers.

The company's HDD products are designed for mission critical and nearline applications in enterprise servers and storage systems; edge compute/clientcompute applications. SSD products mainly comprise serial attached SCSI ("SAS") and Non-Volatile Memory Express ("NVMe") SSDs. Cloud systems and solutions portfolio incorporates modular original equipment manufacturer ("OEM") storage systems and scale-out storage servers.

Seagate reported revenues of $10.397 billion in fiscal 2019. The company offers its products under two heads — mass capacity storage and Legacy. The company enhanced its position in SSDs with the acquisition of Samsung's HDD operations and the French drive maker, LaCie. In fiscal 2019, the company shipped 347 exabytes of HDD storage capacity.





Geographically, revenues from the Americas accounted for 32% of fiscal 2019 revenues, EMEA brought in 19% and the remaining 49% came from Asia Pacific.

Seagate primarily sells to OEMs but supplements this with sales through distributors and retailers. Major OEM customers include Dell Inc., HP Inc, IBM and Oracle. Revenues from the OEMs accounted for 70% of fiscal 2019 revenues, Distributors brought in 17% and the remaining 13% came from Retailers.

The disk drive market is highly competitive and the company mainly competes with manufacturers of hard drives used in the enterprise, edge compute/client compute and edge non-compute/client non-compute applications and with other companies in the data storage industry that provide SSDs and NVMe add-in technology. Micron Technology, Western Digital Samsung Electronics and SK Hynix are few of the major competitors of Seagate.

Reasons To Buy:

Seagate is focusing on the enterprise side, where it could acquire higher-margin business. Synergies from acquisitions and product innovations are the other growth catalysts.

- Prominent storage players, like Seagate have been expanding into the SSD storage market. SSDs are faster and more energy efficient than traditional hard drives. These also occupy less space and are thus more suitable for mobile computing devices. The emergence of thinner laptops and tablets over the past few years has created an ideal market for SSDs, which are therefore entering the higher end of the market. SSDs are also being used in servers due to lower latency, which in turn facilitates faster response to real-time applications. E-Commerce and financial enterprises need quicker response time and thus data centers serving these clients are opting for SSDs. The secular growth of digital data, modest growth in the TAM and higher demand for storage will drive growth for storage in general, and especially for SSDs. The SSD segment's growth potential is a major positive for Seagate.

- Seagate has been active on the acquisition front. The acquisitions made over the past several years which include Conner Peripherals, Mirra, ActionFront Data Recovery Labs, Maxtor, MetaLINCS and Xyratex have not only helped the company in expanding product portfolio but have also strengthened its small-to-medium sized business solutions. The acquisitions of Accelerated Solutions Division (ASD) and Flash Components Division (FCD) from Avago Technologies in 2014 not only boosted Seagate's enterprise-class PCIe flash offerings but also enhanced the SSD controller capabilities. Seagate is poised to gain from the acquisition as PCIe-based SSDs are in demand from enterprises dealing with online transaction processing and data warehousing. Moreover, in 2015, the company acquired Dot Hill Systems to boost its enterprise side business further. The company's ability to generate substantial operating cash flows allows it to pursue frequent acquisitions. These takeovers are expected to provide the company with a competitive edge.

- Seagate is focusing more on the enterprise side, which is the key growth area in the information technology sector. Anticipating a potential acceleration in cloud deployments (due to exponential growth in data storage in the cloud), Seagate is investing heavily to deliver high-capacity storage devices that would support expansion of cloud infrastructure and cloud applications. The company in 2015 acquired Dot Hill Systems Corp. which is engaged in designing, manufacturing and marketing of a wide range of software and hardware storage systems, including hybrid storage arrays, for clients ranging from SMBs to enterprise. We believe that the acquisition of Dot Hill is in line with the company's strategy to focus more on the enterprise side, where it could gain higher-margin business. Seagate also believes that higher demand for cloud storage will lead to improved pricing for enterprise-class drives, mainly due to supply constraints. The company expects cloud-based solutions to drive revenue growth in the near term. Seagate's expectations stems from the fact that IDC expects 60% of the 13 ZB data produced to be stored in the cloud.

- PCs remain the biggest users of HDDs and Seagate still derives the bulk of its revenues from these devices. Per Gartner's preliminary data, PC shipments in fourth-quarter 2019, inched up 2.3% year over year to 70.6 million units. Going by the IDC report, shipment rose 4.8% on a year-over-year basis and totaled 71.8 million in the period under review. An improving trend in PC shipments favors business prospects of Seagate, which continues to depend substantially on PC sales.

- Seagate continues to boost shareholders' value through dividends and share repurchases in fiscal 2019. The company paid dividends worth $713 million and repurchased 21 million shares in fiscal 2019. In second-quarter fiscal 2020, the company repurchased 2.5 million shares worth $150 million and paid out dividends worth $160 million. These investor-friendly initiatives not only boost earnings but also instill investors' confidence and loyalty.

Reasons To Sell:

> Sluggish macroeconomic conditions, a flattish price environment, and competition from Western Digital and SanDisk remain near-term headwinds.

- The merger between Western Digital and SanDisk has made it more challenging for Seagate to capture market share in the newer storage technology – SSD. The merger will lead to economies of scale, lower costs, greater market reach and acquisitions of new technologies, among other synergies, for the two major storage solution providers. The companies will also be able to offer competitive solutions in cloud-based computing, which has overtaken digital storage solution space over the past couple of years. Therefore, it will be difficult for Seagate to remain competitive in the storage business.

- The disk drive market is highly competitive and has experienced drastic pricing pressure due to supply/demand volatility. In the near future, hard disk companies might be exposed to pressures as customers, such as tablet PC makers choose flash cards for storage purposes over the customary hard disks. The situation may compel companies to slash hard disk prices, in turn hurting margins.

- Seagate derives a significant proportion of its revenues from outside the United States (almost 31.8% of total revenues in fiscal 2019), subjecting the company to exchange rate volatility. Unfavorable movement in exchange rates of foreign currencies like euro and pound sterling, related to the U.S. dollar can adversely impact results and undermine its growth potential to some extent.

- In addition, high indebtedness adds to the risk of investing in the company. At the end of second-quarter fiscal 2020, Seagate's net debt amounted to $2.40 billion as compared to $2.36 billion reported in the previous quarter.

- Moreover, the company is trading at premium in terms of Price/Book (P/B). Seagate currently has a trailing 12-month P/B ratio of 6.89. This level compares unfavorably with what the industry witnessed in the last year. Consequently, the valuation looks slightly stretched from P/B perspective.

Last Earnings Report

Seagate Q2 Earnings Top, Revenues Lag Estimates

Quarter Ending	12/2019
Report Date	Feb 04, 2020
Sales Surprise	-0.94%
EPS Surprise	3.05%
Quarterly EPS	1.35
Annual EPS (TTM)	4.07

Seagate reported second-quarter fiscal 2020 non-GAAP earnings of $1.35 per share, surpassing the Zacks Consensus Estimate by 3%. However, the figure declined 10.6% from the year-ago reported figure.

Non-GAAP revenues of $2.696 billion lagged the Zacks Consensus Estimate of $2.722 billion. The figure also declined 0.7% from the year-ago quarter.

Exabyte Shipments in Detail

During the reported quarter, Seagate shipped 106.9 exabytes of hard disk drive (HDD) storage, with an average capacity of record 3.3 terabytes (TB) per drive. This marked year-over-year and sequential improvement of 22.3% and 8.7% in the total HDD exabytes shipments, respectively. Notably, average capacity improved from 2.9 TB and 2.4 TB reported in the prior quarter and the year-ago quarter, respectively.

The company shipped 71.3 exabytes for the mass capacity storage market (includes nearline and video and image applications as well as network-attached storage or NAS). This marked a sequential increase of 11.6% in exabytes shipments. However, average capacity per drive declined sequentially from 6.8 TB to 6.4 TB.

Particularly, in the nearline market, the company shipped 49.0 exabytes of HDD, up 3.4% sequentially.

The company shipped 35.6 exabytes for the Legacy market (includes mission-critical, notebook, desktop, gaming consoles, digital video recorders or DVR, and external consumer devices) with an average capacity of 1.6 TB. This marked a sequential improvement of 3.2% in exabytes shipments. Notably, average capacity improved from 1.4 TB reported in the prior quarter.

Notably, mass capacity and legacy verticals contributed 49% and 43% to total revenues, respectively.

Revenues by Product Group

Total HDD revenues declined 0.3% year over year to $2.482 billion in the reported quarter.

Non-HDD segment (enterprise data solutions, cloud systems and SSDs) revenues were down 4.4% year over year to $215 million.

Margin Details

Non-GAAP gross margin contracted 120 basis points (bps) on a year-over-year basis to 28.7%.

Non-GAAP operating expenses were up 1.7% on a year-over-year basis to $350 million.

Non-GAAP income from operations came in at $424 million, down 9.4% from the year-ago quarter. As a percentage of non-GGAP revenues, the figure contracted 150 bps year over year, and came in at 15.7%.

Balance Sheet and Cash Flow

As of Jan 3, 2020, cash and cash equivalents were $1.74 billion compared with $1.78 billion, as of Oct 4, 2019.

Seagate ended the fiscal second quarter with a long-term debt (including current portion) of $4.141 billion, almost flat sequentially.

Cash flow from operations was $480 million, compared with $456 million reported in the previous quarter.

Free cash flow for the reported quarter amounted to $286 million, compared with $309 million reported in the prior quarter.

Guidance

Management anticipates third-quarter fiscal 2020 revenues to be 2.7 billion (+/- 7%).

Non-GAAP EPS for the third quarter is expected to be $1.35 (+/- 7%).

Recent News

On Feb 13, 2020, Seagate officially opened Lyve Labs in Tel Aviv to drive innovation in the data storage market.

On Feb 4, 2020, Seagate's board of directors approved a cash dividend of 65 cents per share, payable Apr 8, 2020, to shareholders as on Mar 25, 2020.

On Jan 6, 2020, Seagate unveiled the Seagate's Lyve Drive Mobile System, a portfolio comprising simple, secure and efficient data management solutions.

On the same day, Seagate added the FireCuda Gaming SSD and BarraCuda Fast SSD to its portfolio of high-performance storage solutions.

On Nov 12, 2019, Seagate expanded its offerings with two new high-performance solutions. The Seagate FireCuda 520 PCIe Gen4 x4 SSD and the FireCuda Gaming Dock feature 4TB of HDD storage capacity and an NVMe M.2 expansion slot for an optional ultra-fast SSD upgrade.

Valuation

Seagate shares are down 11.5% in the past six-month period and up 3.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are down 20% and 2.5% in the past six-month period, respectively. Over the past year, the Zacks sub-industry is down 21% while the sector is up 0.5%.

The S&P 500 index is down 11.6% in the past six-month period and 7.5% in the past year.

The stock is currently trading at 8.73X forward 12-month earnings, which compares to 11.15X for the Zacks sub-industry, 19.52X for the Zacks sector and 16.58X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.18X and as low as 6X, with a 5-year median of 10.17X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $55 price target reflects 9.97X forward 12-month earnings.

The table below shows summary valuation data for STX

Valuation Multiples - STX

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	8.70	11.1	18.95	15.91
	5-Year High	15.18	16.12	22.02	19.34
	5-Year Low	6.00	9.68	16.85	15.18
	5-Year Median	10.14	12.15	19.3	17.42
P/S F12M	Current	1.16	1.17	3.08	2.85
	5-Year High	1.65	1.43	3.58	3.43
	5-Year Low	0.53	0.82	2.3	2.54
	5-Year Median	1.17	1.14	3.07	3
P/B TTM	Current	6.89	2.62	4.55	3.54
	5-Year High	16.21	3.93	5.70	4.56
	5-Year Low	3.30	1.64	3.13	2.85
	5-Year Median	7.07	2.87	4.27	3.63

As of 03/26/2020

Industry Analysis **Zacks Industry Rank:** Top 5% (13 out of 253)

Top Peers

Intel Corporation **(INTC)**	Outperform
Qumu Corporation **(QUMU)**	Outperform
Samsung Electronics Co. **(SSNLF)**	Outperform
Western Digital Corporation **(WDC)**	Outperform
Micron Technology, Inc. **(MU)**	Neutral
NetApp, Inc. **(NTAP)**	Neutral
Pure Storage, Inc. **(PSTG)**	Neutral
Teradata Corporation **(TDC)**	Neutral

Industry Comparison Industry: Computer- Storage Devices

Industry Peers

	STX Neutral	X Industry	S&P 500	MU Neutral	PSTG Neutral	WDC Outperform
VGM Score	B	-	-	D	C	C
Market Cap	12.52 B	741.22 M	18.50 B	49.64 B	3.65 B	13.24 B
# of Analysts	7	7	13	8	8	7
Dividend Yield	5.42%	0.00%	2.35%	0.00%	0.00%	4.52%
Value Score	A	-	-	B	F	A
Cash/Price	0.16	0.35	0.07	0.19	0.49	0.34
EV/EBITDA	6.98	1.43	11.16	3.78	-34.84	9.67
PEG Ratio	7.99	3.83	1.74	1.93	6.41	NA
Price/Book (P/B)	6.89	3.26	2.44	1.34	4.68	1.40
Price/Cash Flow (P/CF)	6.74	10.69	9.87	3.94	NA	4.36
P/E (F1)	9.67	12.18	15.29	19.85	117.89	13.97
Price/Sales (P/S)	1.26	1.21	1.93	2.53	2.22	0.85
Earnings Yield	10.40%	6.43%	6.47%	5.05%	0.86%	7.16%
Debt/Equity	2.26	0.12	0.70	0.15	0.73	1.02
Cash Flow ($/share)	7.12	0.10	7.01	11.36	-0.29	10.15
Growth Score	C	-	-	F	A	D
Hist. EPS Growth (3-5 yrs)	10.03%	-4.75%	10.85%	68.56%	NA	-19.53%
Proj. EPS Growth (F1/F0)	3.50%	4.44%	2.89%	-64.47%	-59.05%	-34.48%
Curr. Cash Flow Growth	-13.19%	-20.90%	5.93%	-35.35%	-39.40%	-53.72%
Hist. Cash Flow Growth (3-5 yrs)	-6.14%	2.60%	8.55%	15.84%	1.04%	-1.49%
Current Ratio	1.54	1.47	1.23	2.74	3.31	1.92
Debt/Capital	69.32%	28.17%	42.57%	13.61%	42.29%	50.44%
Net Margin	17.03%	-2.58%	11.64%	11.72%	-12.23%	-7.66%
Return on Equity	58.19%	1.01%	16.74%	7.16%	-21.34%	1.01%
Sales/Assets	1.13	0.90	0.54	0.40	0.77	0.59
Proj. Sales Growth (F1/F0)	0.99%	0.00%	2.37%	-14.65%	11.45%	1.58%
Momentum Score	C	-	-	C	F	C
Daily Price Chg	7.75%	5.07%	6.21%	5.39%	11.55%	6.39%
1 Week Price Chg	-16.76%	-13.97%	-16.96%	-16.00%	-18.17%	-25.75%
4 Week Price Chg	-0.81%	-16.78%	-15.70%	-11.45%	-7.04%	-19.72%
12 Week Price Chg	-20.71%	-21.86%	-23.67%	-19.14%	-21.35%	-32.51%
52 Week Price Chg	4.31%	-35.90%	-13.99%	13.85%	-34.79%	-3.19%
20 Day Average Volume	4,148,557	498,152	4,286,768	37,820,872	5,129,272	7,976,500
(F1) EPS Est 1 week change	-1.50%	0.00%	-0.15%	-3.53%	-27.22%	0.00%
(F1) EPS Est 4 week change	-1.50%	-0.89%	-2.28%	-4.72%	-83.56%	-0.28%
(F1) EPS Est 12 week change	2.75%	-1.63%	-3.22%	-1.98%	-83.56%	42.68%
(Q1) EPS Est Mthly Chg	-3.48%	-3.48%	-1.60%	-4.60%	-26.49%	0.00%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	C
Momentum Score	C
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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