

April 26, 2018

**Company Name:** NTAP

**Awa Jobe**

**Sector:** Technology

**Industry:** Hardware

**Current Price:** 71.95

**Target Price:**



## BUY

Current Price: \$71.95  
 Target Price: \$77.99  
 Market Cap: 17.44B  
 Beta: 1.2  
 Other key Metrics/Ratios

## Company Description:

NetApp, Inc. provides storage and data management solutions. The Company's storage solutions include specialized hardware, software, and services that provide storage management for open network environments. NetApp serves enterprises, government agencies, and universities worldwide

**Thesis:** The emerging importance of data, analytics, and machine learning to corporations ensures that demand for the cloud will see continued growth in the years ahead. For many companies that have yet to make the transition, moving to the cloud provides the necessary means to expand in a cost effective manner. NetApp is making its products a need for every business in order to be able to focus on its mission instead of losing focus area. The expertise and cutting edge technology available from NetApp's cloud partners will be essential for the next generation of companies. NetApp is poised to benefit from the continuation of this trend by offering flexibility and making the transition to flash-based storage easier. I think the current share price offers new investors an attractive entry point considering its previous performance.

**Catalysts:** Forward looking projections that call for positive/negative outlook that will strengthen your thesis. Example:

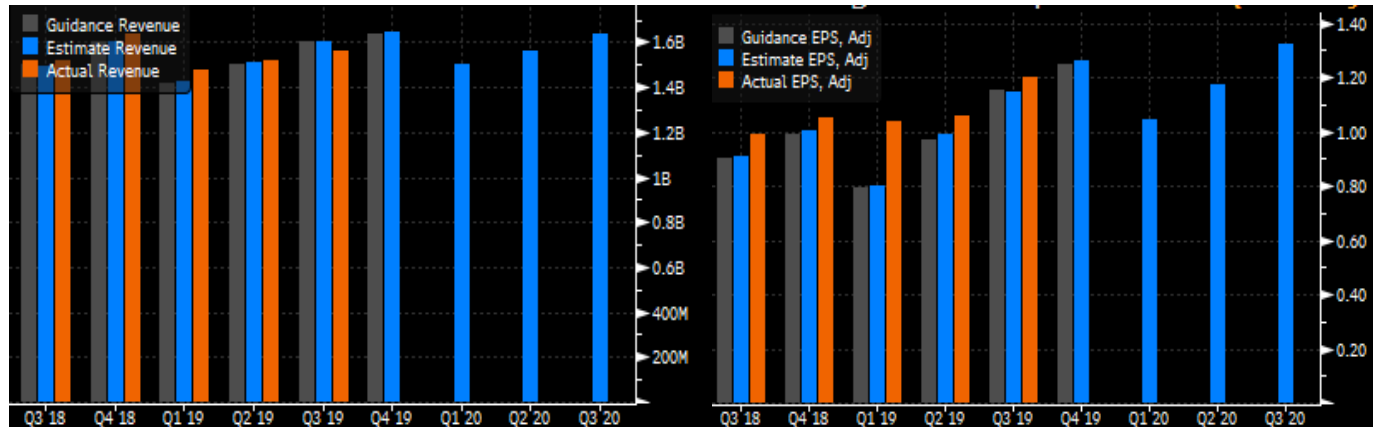
- Short Term(within the year):
- Mid Term(1-2 years):
- Long Term(3+):

## Earnings Performance:

NetApp has reported positive net income and free cash flow for over a decade. NetApp shares currently offer a 2.42% dividend yield. However, growth figures are not very impressive. Sales growth was at 1.6% on a quarter over quarter basis while EPS declined substantially. Sales over the last five years are about flat while earnings grew at 19.8% annually on average. This is one of the reason why I think there is additional value in the shares. Analyst estimates the one-year target price of NetApp at 79.30 giving it only a 7% of growth. The company is still in the early stages of a turnaround and I believe analyst do not factor in the earnings growth potential for the coming years. The company has been affected by events currently but still have a high level of cash with 2.9 billion on their books. In terms of their assets, the company currently has 9.8 billion total. We can clearly assess from these number that the company has a strong balance sheet. NetApp recorded 804 million as free cash flow during the recent reported quarter of the year, this saw their quarterly net cash flow reduce by 671 million. In cash movements, the company had a total of 942 million as operating cash flow.

The company has continually beat the estimates these past quarters. Revenues were 1.47B and adjusted EPS 1.05 during the fourth quarter of 2018 compared to its expected revenue of 1.42B and 1.006 EBITDA giving the company a YoY growth of respectively 0.3% and 19.9%. EBITDA also had a growth of 13.7%.

Lately, the company has suffered from the tech-spending slowdown but it has a long-term plan to cut cost and stabilize its business. Next earnings is expected to be reported on May 22<sup>nd</sup> 2019.



## Industry Outlook:

We can clearly see from the technology hardware and equipment index (MXWO0TH) line chart that there is a strong correlation between the hardware industry and price movements of Netapp. This industry has been suffering from macroeconomic factors that caused a slowdown due to slowing consumer spending in technology. The industry is slowly growing since the beginning of this year due to increasing demand and shift to All-Flash and cloud-based storage. Cloud storage is revolutionizing the way companies store their data and it is expected that the market size of the Data Center Services will significantly increase in the coming years.

Lately, IT departments around the world have made a shift in order to have a better access of their data. Instead of building up their own datacenters, which will increase their costs, and make it run by a whole IT department, businesses are increasingly moving to the cloud data storage. One of the main drivers of this shift is the desire to better focus on their core business and subcontract with another company to the best technology run by specialists. The growth of data and the need to have access to them everywhere due to the increasing mobility of people has increased the demand for cloud services. However, the growth of data and the movement of corporations to the cloud are still in the early stages of development. Global Hybrid Cloud Market is expected to reach \$171,926 Million by 2025 growing at a CAGR of 21.7%. The latter being the specialty of NetApp, the company has a lot of growth prospect and could position itself as a solid market leader in the coming years.



## Business Offerings:

NetApp provides a full range of hybrid cloud data services to seamlessly manage applications and data across cloud and on-premises environments. NetApp's broad offering of products are in the areas of Cloud Data Services, Data Storage Systems, Converged Systems, Data Infrastructure Management, Data Backup and Recovery, Data Security, Data Storage Systems, All-Flash Storage, Hybrid Flash Storage and AI. The company also offers an equally long list of solutions such as to integrate cloud data services and accelerate workloads and analytics. NetApp's products and services are valued across a diverse list of industries including financial services, manufacturing healthcare, media and energy. NetApp utilizes a data fabric that connects different clouds. Corporation often look for solutions that involve a combination of private, public and hybrid environments. The company has integrated data management services and applications allow for data visibility and insights, data access and control and data protection and security. In addition to those, NetApp also offers consulting services for digital transformation.

## Competitor:

NetApp differentiates itself from competitors through a combination of technology, partnerships, and its vision to be the leader in delivering integrated and consistent data services for the hybrid cloud. NetApp utilizes a data fabric that connects different clouds. Corporation often look for solutions that involve a combination of private, public and hybrid environments. The company has integrated data management services and applications allow for data visibility and insights, data access and control and data protection and security.

This industry is highly competitive. Competition is intense between the well-established brand such as Dell, HP and IBM. NetApp is also facing competition from smaller companies and alliances. For instance in 2016, Dell and EMC Corp. merged and HP also acquired Nimble storage which give both of the company a better competitive advantage in comparison of the other market players. Compared to the median of its competitors, we can see that the company has better operating and has approximately equal EBITDA margin and sales growth, it also has significantly lower debt with only 6.6% in debt compared to the industry who approximately has 30% in debt. Competition in this industry is principally based on recognition as well as product offering and innovation. Capital intensiveness and regulation make this industry particularly challenging.

Name	Mkt Cap (USD)	Last Px	Chg Pct 1D	Chg Pct 1M	Rev - 1 Yr Gr:Y	EPS - 1 Yr Gr:Y	P/E	ROE	Dvd 12M Yld
Median	16.12B	47.44	-2.65%	5.03%	6.98%	85.17%	7.93	37.91%	3.43%
100) NETAPP INC	17.66B	71.51	-2.72%	5.74%	7.10%	31.13%	19.03	58.57%	2.24%
101) QUANTUM CORP	87.72M	2.53	0.80%	4.33%	6.17%	--	--	--	--
102) WESTERN DIGITAL CORP	14.57B	50.10	-5.42%	6.40%	8.14%	145.90%	8.06	17.25%	3.99%
103) SEAGATE TECHNOLOGY	12.51B	44.79	-2.78%	-5.13%	3.83%	49.70%	7.51	115.87%	5.63%
104) DELL TECHNOLOGIES -C	46.91B	65.28	-2.58%	10.85%	14.65%	85.17%	--	--	--
105) HEWLETT PACKARD ENT...	21.54B	15.72	-1.87%	2.65%	6.86%	186.16%	7.80	14.49%	2.86%

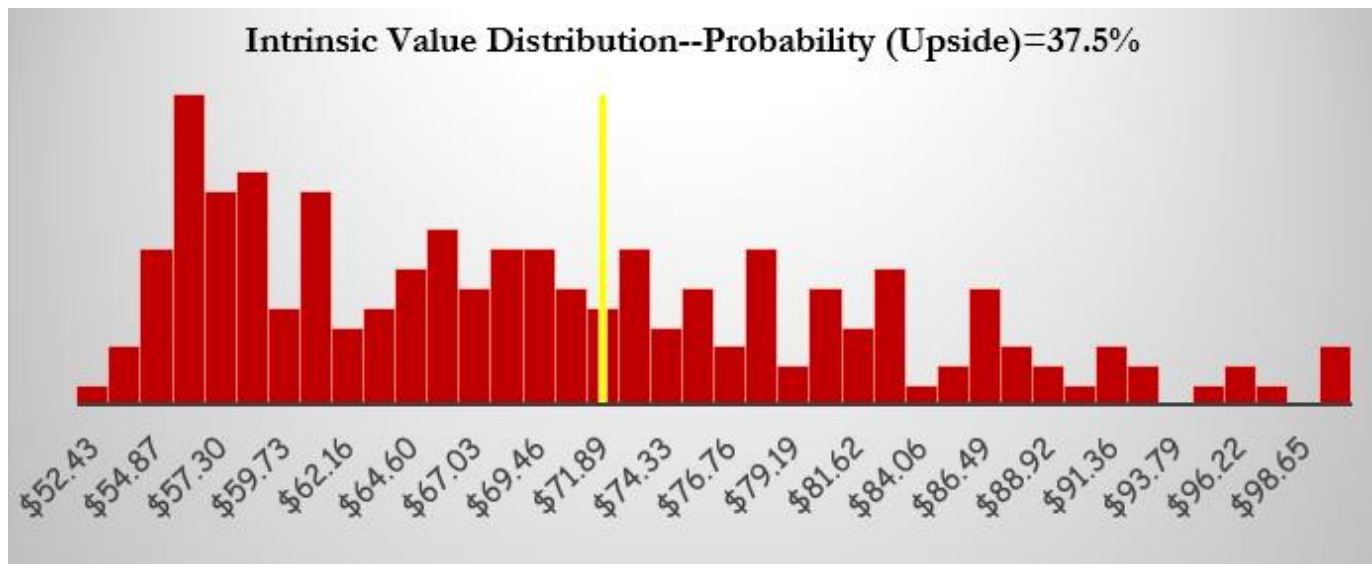
## Management/Ownership:

The Ownership chart for NetApp with their one-year change is shown below. Investments advisors at 88% and hedge fund managers at 3% hold the majority of the company's shares. The high ownership by investment advisor, which has been decreasing on a one-year period, show that there is not a particularly good sentiment on this stock. With an institutional ownership at 88%, NetApp might face volatility in its stock price movements if institutions chose to block traded on the open market. Hedge funds do not have a significant stake on the company. The company has 246.9M shares outstanding with an equity float of 246.7M and 2.37M shares are traded daily. The short interest chart is shown below. It takes 5.37 days to cover short interest. It has recently come down from a low of 3.3 days on February to 7.5 as of the end of March.

54) Ownership Type	04/22/18	Curr	Change	
41) Investment Advisor	88.19	87.55	-0.64	📈
42) Hedge Fund Manager	3.05	4.01	+0.96	📈
43) Bank	2.41	2.42	+0.01	📈
44) Pension Fund	2.28	2.06	-0.22	📈
45) Sovereign Wealth Fund	1.45	1.44	-0.01	📈
46) Government	1.21	1.31	+0.10	📈
47) Insurance Company	0.86	0.83	-0.03	📈
48) Individual	0.07	0.12	+0.05	📈
49) Holding Company	0.13	0.12	-0.01	📈

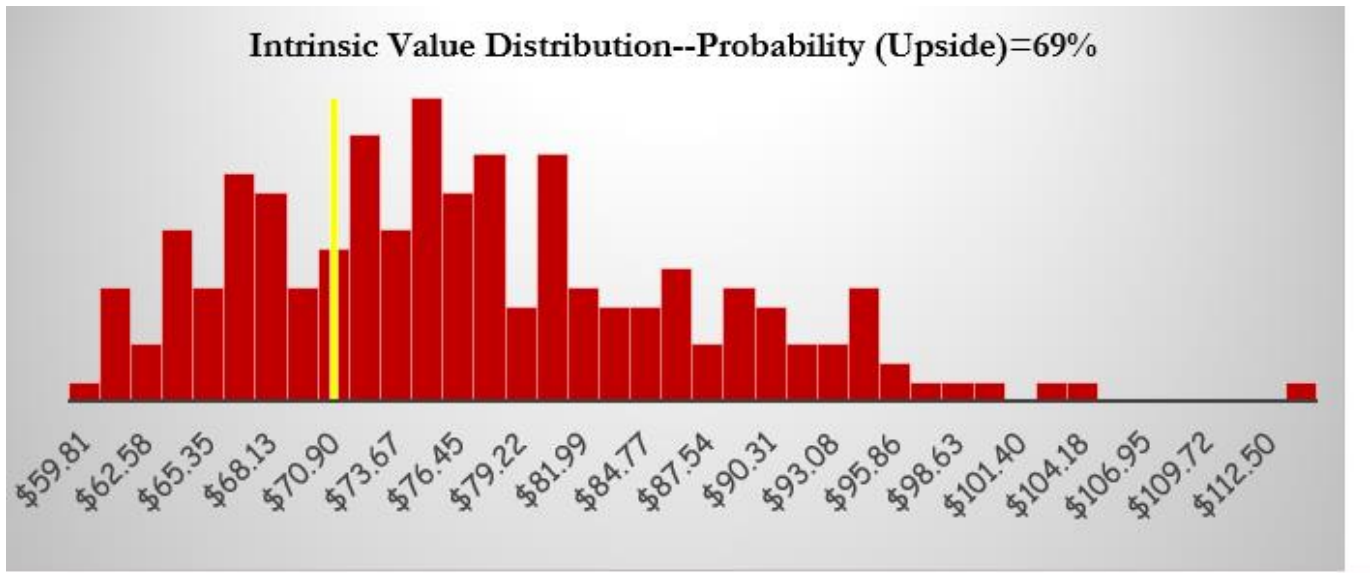
### Bear Case:

Under the bear case, there is a 37.5% intrinsic value probability upside with a target price \$73.5. This is due to assuming that the revenue growth will grow at a slower rate than in the base case thus a year on year return of less than 1%



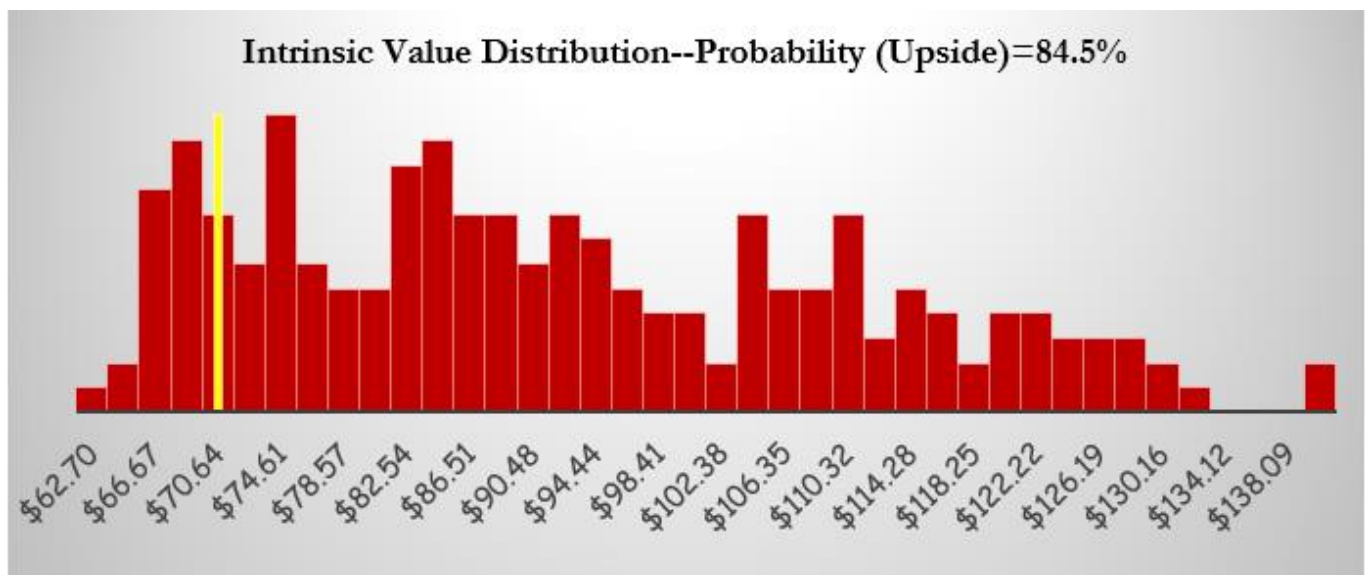
### Base Case:

During my valuation, I was conservative and expected growth to slow down slightly due to increasing new competitors and a slower shift of demand by the companies. I expected a slight increase in EBITDA margin to 30% due to better cost management and higher profits resulting from better price negotiating with suppliers. There is a 69% of probability increase with a target price of \$78.01.



## Bull Case:

The bull case for NTAP would come if the company can exceed expectations in the coming year. This would need to be a beat and raise for the company. If demand continue to grow for the following year leading to stable macroeconomic environment. The company will see a sales growth of 7% while keeping other margins constant. This would result from the increase of cloud based storage demand due to an accelerating shift for the demand of hybrid cloud services. The 84.5% intrinsic probability upside will lead to a target price of \$ 90.23 thus a 25.4% one-year return.  
a return of 58%.



## **Conclusion:**

In conclusion, NetApp is a buy at the current price. This is due to the growing potential of the industry of hybrid cloud as well as the broadening of the company offerings to expand its customer base and lower its costs to achieve a higher operating margin. Also, NetApp heavily invested technology and marketing, which allows the company to operate with higher margins as well as to remain competitive in this industry.

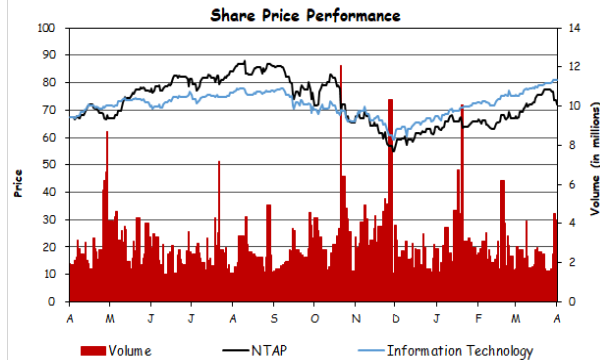
# CENTER FOR GLOBAL FINANCIAL STUDIES

NTAP

Friday, April 26, 2019

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NetApp, Inc.	Symbol: NTAP
Analyst	JOBE
Buy below	\$63.68
Sell above	\$89.28
Probability of Price Increase	69%
Last Price	\$71.90
Intrinsic Value	\$73.03
Target Dividends	\$1.61
Target Price	\$77.99



**Description**  
NetApp, Inc. provides software, systems, and services to manage and share data on-premises, and private and public clouds worldwide.

Sector	Information Technology
Industry	Technology Hardware, Storage and Peripherals
Last Guidance	December 11, 2018
Next earnings date	May 22, 2019

**People**  
Kurian, George, CEO, President & Director  
Pasek, Ronald, Executive VP, CFO & Principal Accounting Office  
Fawcett, Matthew, Senior VP, General Counsel & Secretary  
Reich, Joel, Executive VP & General Manager, NetApp Storage  
Richard, Henri, Executive Vice President of Worldwide Field & C  
Bergmann, Jeffrey, Vice President of Corporate Finance

<b>Top Competitors</b>	
Dell Technologies Inc.	Cray Inc.
Hewlett Packard Enterprise Company	--
International Business Machines Corporation	--
Pure Storage, Inc.	--
Nutanix, Inc.	--

<b>Market Statistics</b>	
Market Capitalization (mil)	\$17,757.49
Last Price per share	\$71.90
52 week high	\$88.08
52-week low	\$54.50
Volatility	29.48%
Daily volume (mil)	2.72
Short interest	7.16%
Days to cover short interest	6.24
Beta	1.05

<b>Ownership</b>		<b>Change in Ownership (September 2018)</b>	
Shares outstanding (mil)	246.97		
Diluted shares outstanding (mil)	271.50		
Options and Warrants (Shares equivalent)	0.53		
% shares held by institutions	98%		<b>11.62%</b>
% shares held by investments Managers	85%		<b>0.83%</b>
% shares held by hedge funds	4.86%		<b>0.37%</b>
% shares held by VC/PE firms	0.015%		<b>N/A</b>
% shares held by insiders	0.11%		<b>-1.01%</b>
Poison Pill Type	NONE		

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### Quarterly Earning Surprises (Actual Vs. Median Estimates)

Revenue	
1/26/2018	2.60%
4/27/2018	2.56%
7/27/2018	4.05%
10/26/2018	0.46%
1/25/2019	-2.62%
Mean (Standard Error)	1.41% (1.01%)

EBITDA	
1/26/2018	-213.70%
4/27/2018	-6.73%
7/27/2018	14.38%
10/26/2018	-8.46%
1/25/2019	-15.59%
Mean (Standard Error)	1.41% (4.25%)

### Valuation

#### DCF Valuation

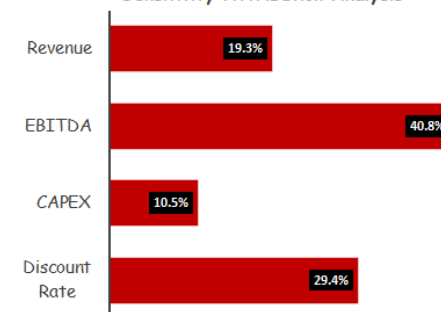
	Revenues	EBITDA Margin	UFCF	WACC	ROIC	Price Per Share
Base Year (Actual)	\$6,190.00	22%	\$1,768.68	8.26%	10.19%	\$72.16
year 1	\$6,493.29	32%	\$1,258.89	9.32%	12.66%	\$76.56
year 2	\$6,735.07	32%	\$1,295.10	9.33%	12.41%	\$81.03
year 3	\$6,969.80	30%	\$1,425.02	9.35%	12.63%	\$85.57
year 4	\$7,163.37	30%	\$1,477.73	9.37%	12.15%	\$90.18
year 5	\$6,930.37	28%	\$1,399.11	9.39%	10.27%	\$94.93
year 6	\$7,103.16	28%	\$1,363.68	9.40%	9.78%	\$99.77
year 7	\$7,459.21	26%	\$1,389.15	9.41%	9.72%	\$104.71
year 8	\$7,272.80	26%	\$1,370.98	9.43%	8.58%	\$109.82
year 9	\$7,599.53	26%	\$1,363.76	9.44%	8.48%	\$115.06
year 10	\$7,713.68	25%	\$1,377.92	9.45%	8.01%	\$120.48
year 11	\$7,848.79	25%	\$1,372.77	9.46%	7.61%	\$126.08
year 12	\$8,005.87	24%	\$1,370.44	9.47%	7.30%	\$131.89
year 13	\$8,186.09	24%	\$1,370.65	9.48%	7.04%	\$137.93
year 14	\$8,390.79	23%	\$1,373.41	9.48%	6.83%	\$144.21
year 15	\$8,621.57	23%	\$1,350.21	9.49%	6.56%	\$158.48
Continuing Period	\$8,880.22	23%	\$1,688.77	9.50%	9.50%	

Relative Valuation	Asset Based Valuation
Multiple	EV/Rev (FW)
Median (Peers)	EV/EBITDA (FW)
Base	P/BV (TTM)
NTAP	P/E (FW)
Implied EV	Recovery Rate
Total Net Claims	Capital
Implied EQ	Intangibles
	Claims

Valuation Summary	Intrinsic Value	Target Price	Weight
DCF Valuation	\$72.16	\$76.56	50.00%
EV/Rev (FW)	\$60.29	\$64.15	0.00%
EV/EBITDA (FW)	\$78.12	\$83.64	50.00%
P/BV (TTM)	\$214.24	\$232.44	0.00%

Financials	NTAP (LTM)	NTAP Historical	Peers' Median (LTM)
<b>Profitability</b>			
Return on Capital	10.2%	8.09%	12.37%
Adjusted EBITDA Margin	22.2%	5.37%	9.01%
Return on Equity	14.0%	2.4%	13.3%
Adjusted Net margin	18.2%	3.0%	6.6%
<b>Invested Funds</b>			
Cash/Capital	88.2%	57.4%	26.4%
NWC/Capital	-30.6%	-7.4%	-4.4%
Operating Assets/Capital	8.7%	33.7%	51.5%
Goodwill/Capital	33.6%	15.6%	11.0%
<b>Capital Structure</b>			
Total Debt/Market Cap.	0.12	0.18	0.32
Reported Cost of Borrowing	3.0%		4.0%
Cash Interest/Total Debt	3.2%		3.7%
CGFS Credit Rating	BBB		B
Credit Model Rating	bbb+		bb to bb+
Probability of Default	0.06%		0.04%
<b>Cost of Capital</b>			
	CGFS Credit Rating	Credit Model Rating	Probability of Default
Implied Cost of Borrowing (NTAP)	4.9%	5.3%	5.3%
Implied Cost of Borrowing (Peers)	5.7%	6.5%	5.3%
Cost of New Debt Estimate	4.1%		
Market Risk Premium Estimate	5.8%		
Cost of Equity Estimate	9.9%		
WACC Estimate	9.3%		

### Sensitivity Attribution Analysis



### Intrinsic Value Distribution--Probability (Upside)=69%

