

Company Description: A leading provider of data storage technology and solutions. Seagate offers hard disk drives along with a broad range of data storage products including solid state drives and their related controllers, solid state hybrid drives and storage subsystems.

BUY

Current Price:	\$40.49
Target Price:	\$45.07
Market Cap:	2B
P/E:	11.6x
EBITDA Margin:	19.12%
ROE:	74.93%
ROIC:	23.09%
ROIC/WACC:	1.9

Catalysts:

- Short Term(within the year): Operational efficiency driving margins past competitors
- Mid Term(1-2 years): Leading provider of a stabilizing hard-disk drive market
- Long Term(3+): Integration of Toshiba Memory Corp. opening up opportunities in the solid state drive market

Thesis: Seagate is a leading provider of a stabilizing hard-disk drive market. In the shift towards solid state drive, the company will be able to stay competitive through the agreement with Toshiba Memory Corp. Operational excellence with further drive margins past competitors who have little room to grow. Value will also be created through a decrease in capital expenditures which will lead to 30-50% of cash flows being returned to shareholders. At a P/E of 11.6x, this undervalued stock must be bought.



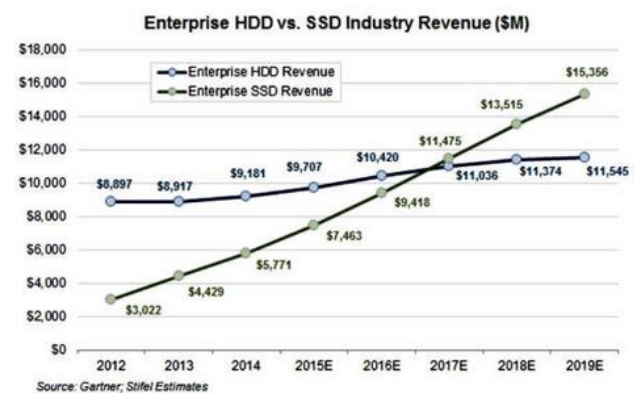
Q1

Earnings Surprise:

After missing revenue estimates in the last two quarters, Seagate beat its FY 2018 Q1 estimate by \$110M. The firm reported revenues of approximately \$2.6B. Within this, notebook compute revenue was up 37% year-over-year as the gaming business grew sequentially 13%. This was driven by gaming customers demanding more local mass storage for their rich gaming experiences. Non-HDD revenue was up 30% quarter-over-quarter. This was driven by the major transformative shift in the marketplace from client server to mobile cloud. The company experienced record HDD Exabyte shipments of 70.3 exabytes, up 5% year-over-year. The average capacity per drive across the HDD portfolio was also a record, 1.9 terabytes per drive with an average selling price of \$64 per unit being. This metric was up 0.2 terabyte per drive from the prior year quarter. The Enterprise HDD segment shipped 27.2 exabytes, with a record average capacity of 3.9 terabytes per drive. These records were driven by the growth in hyperscale and cloud storage deployment. On a GAAP basis, Seagate reported a gross margin of 28%, net income of \$181M and diluted earnings per share of \$0.62. Compared to the prior year quarter, GAAP gross margins were down 0.6%, net income was up \$14M, and diluted earnings per share were up \$0.07. On a non-GAAP basis, Seagate achieved gross margins of 29%, net income of \$279 million and diluted earnings per share of \$0.96. Compared to the prior year quarter, non-GAAP gross margins were down 0.5%, net income was down about \$20M, and diluted earnings per share was down \$0.03. Seagate's stock price jumped roughly 14% around late October's earnings call.

Industry Outlook:

As solid state drives (SSD) are on their way to becoming the mainstream, standard storage device, there is still a market for hard disk drives (HDD). HDDs can be found in desktop computers, mobile devices, consumer electronics and enterprise storage arrays in data centers. However, the adaption of flash based SSDs in laptops and PCs continue at pace and continue to eat into traditional HDDs. The SSD market is rapidly growing at a CAGR of 20% in the 2015-2019 period. While, the HDD market is stabilizing at a CAGR of 4% during the same timeframe. HDDs are slower, uses more battery, and are louder than SSDs. However, the cost advantages and storage capacity HDD presents creates a market for the drive. HDDs cost roughly \$0.03 per gigabyte and have a capacity of 2TB maximum for notebook size drives, along with a 10TB max for desktops. SSDs cost roughly \$0.20 per gigabyte and have a capacity of 1 TB for notebook size drives, along with a 4TB max for desktops. The increasing demand and adoption in cloud storage and other enterprise applications is the key driver for the HDD market going forward. Although the decline in PC sales has negatively affected HDDs, the stabilization of the laptop market has balanced the sales mix. The shift towards cloud service in



the data storage segment is also



SSD Top Side



SSD Bottom Side



HDD Top Side



HDD Bottom Side

positively affecting the HDD as well. The cost and storage advantages HDDs bring allows them to maintain relevancy to become a stabilizing market.

Segment Analysis:

Within Seagate's computer hardware and storage segment, the company offers an enterprise, cloud computing, and non-compute segment. The enterprise segment holds the largest weight of revenues as enterprises are likely to account for 60% of global data by 2025. Within this segment is various types of enterprise software such as database and relationship management. In Q3 of FY 2013, shipping capacity rose 20% to about 24 exabytes as revenue remained relatively flat at roughly \$960M. This was driven by substantial nearline growth which management expects to grow into next year. During the same quarter, the compute segment reported revenues at around \$670M, down 15% year-over-year. This segment offers products for storage, integrated systems, and client computing devices. The non-compute segment offers hard drives for consumer electronics and branded HDD products. During Q3 of FY 2017, this segment experienced an increase in shipments of almost 40% to over 24 exabytes, resulting in revenues increasing 25% to \$780M. This was driven by an increase in demand for consumer gaming hard drives. The global video gaming industry is expected to grow at a GAGR of 4.8%. Within this industry, PC gaming is expected to grow at a CAGR of 6.3%. This will be driven by more digital purchases on the consoles and OCs. The rapid growth in this segment will expand the overall value of Seagate as the non-compute segment holds the highest multiple of the three. The effect the non-compute segment's growth will have on this firm is shown below:

BEFORE GROWTH:

EV/Total Revenue		STX								
					Multiple			EV		
Segment	Method	Value			Low	High		Low	High	
Enterprise	FY 2017 Q3 Revenue	960			1.51	1.72	*	1449.60	1651.20	
Client Compute	FY 2017 Q3 Revenue	670			0.34	0.34	*	227.80	227.80	
Non-Compute	FY 2017 Q3 Revenue	780			6.46	7.85	*	5038.80	6123.00	
Total Firm Value								6,716.20	8,002.00	
Less: Net Debt								(2,717.00)	(2,717.00)	
Plus: Options Proceeds from In-the-Money Options								290.00	290.00	
Total Equity Value								9,723.20	11,009.00	
Fully Diluted Shares OS								290.00	290.00	
Equity Value								33.53	37.96	
Current Price								38.35	38.35	
Premium/Discount to mkt								-14.38%	-1.02%	

AFTER GROWTH:

Segment	Method	Value			Low	High		Low	High	
Enterprise	FY 2017 Q3 Revenue	960			1.51	1.72	*	1449.60	1651.20	*Western Digital
Client Compute	FY 2017 Q3 Revenue	670			0.34	0.34	*	227.80	227.80	*Dell
Non-Compute	FY 2017 Q3 Revenue	780			9.97	12.20	*	7776.60	9516.00	*Workday Inc
Total Firm Value								9,454.00	11,395.00	
Less: Net Debt								(2,717.00)	(2,717.00)	
Plus: Options Proceeds from In-the-Money Options								290.00	290.00	
Total Equity Value								12,461.00	14,402.00	
Fully Diluted Shares OS								290.00	290.00	
Equity Value								42.97	49.66	
Current Price								38.35	38.35	
Premium/Discount to mkt								10.75%	22.78%	

A favorable mix of high-margin enterprise hard drives and other high-end products will sustain healthy gross margins going forward.

Management Analysis:

Newly appointed CEO Dave Mosley is finding ways to create value in a time where the company's primary product is past its growing state. Cash from operations in Q1 of FY2018 was \$237M. These results include \$46M in restructuring charges and inventory staging related to strong October demand signals. Cash from operations in quarter 2 are expected to be at least two times more than Q2 due to working capital improvements in the company's business outlook. The company generated \$113M in free cash flow during the quarter. Free cash flow is also expected to increase as capital expenditures decrease sequentially to remain less than 5% of the company's total consolidated revenue for FY 2018. Capital expenditures were \$124M during Q1 for maintenance capital and manufacturing footprint redeployment, supporting the continued ramp of the company's new HDD products which utilize new tooling and equipment. The company plans to use the excess free cash flow to continue returning 30-50% of its cash flows back to shareholders.

⊕ Issuance of Common Stock	↓	259.0	107.0	98.0	79.0	86.0	80.0
⊕ Repurchase of Common Stock	↓	(1,654.0)	(1,912.0)	(1,087.0)	(1,090.0)	(460.0)	(525.0)
⊕ Common Dividends Paid	↓	(518.0)	(557.0)	(664.0)	(727.0)	(561.0)	(745.0)
Total Dividends Paid	↓	(518.0)	(557.0)	(664.0)	(727.0)	(561.0)	(745.0)

Seagate will be able to stay competitive during the shift to SSDs with the acquisition of Toshiba Memory Corp. The company will provide up to \$1.25B to Bain Capital Private Equity to participate in the consortium of the company. Seagate plans to fund the consortium with existing cash balances and short-term financing mechanisms. The company already announced an expected long-term NAND supply agreement with Toshiba Memory. This will provide continuity of raw NAND for the company's product portfolio. The agreement has the opportunity to provide meaningful revenue growth from Seagate's NAND storage portfolio while providing significant value for storage customers. Most importantly, the agreement will allow Seagate to continue innovating and providing customers with storage solutions that customers needs as SSDs become increasingly popular.

Value Creation:

Seagate plans to create value through expanding its margins. In Q1 of FY 2018, non-GAAP operating expenses were down 14% year-over-year. Management expects future operating expenses to decrease 2-3% as they focus on cost stringency. The company divested the majority of their high-performance computing assets, which they project to result in a cost savings of approximately 20 million a year. Seagate started this approach in July 2017 when they sold their ClustrerStor Line to supercomputer manufacturer Cray. Within this deal, Seagate got rid of over 100 employees. This helped the company achieved its goal of reducing its global workforce by 14%. The company also did so by shutting down its factory its factory in Suzhou, China in order to cut an additional 2,000 jobs. The company remains on track to exit the calendar year with non-GAAP operating expenses of approximately 400 million per quarter. The non-compute segment holds a gross

margin of roughly 34% and will further drive the company's margins as it is the highest growing segment. Below are forecasted margins:

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Operating Margin	14.56%	13.01%	10.71%	6.03%	12.11%	12.32%	12.17%	13.26%	13.55%	14.56%
EBITDA Margin	20.64%	19.42%	16.83%	13.33%	19.06%	19.02%	18.87%	19.96%	20.25%	21.25%

Seagate also aims to create value by returning to its shareholders. In the Q1 earnings call, CEO Dave Mosley said that the company will allocate 30-50% of their cash flows back to shareholders. Last quarter, the company spent \$166M to buy back 5 million shares. By doing so, Seagate has successfully created value by buying back these shares at low multiples, as the average P/E paid during the quarter was 12.87x. The company will also return to its shareholders through issuing a quarterly dividend. The board approved a quarterly dividend payment of \$0.63 for Q1 of FY2018. Seagate currently holds a dividend yield of 6.37%. With 2.3 billion in cash on the balance sheet, the company is financially able to do so.

Vs. Western Digital:

In a thinning HDD industry, innovation will serve as the key driver for companies who are reliant on the product. With the agreement with Toshiba Memory Corp., Seagate gains a competitive advantage on Western Digital. This competitive advantage will come increasingly significant as time goes on and SSDs become more popular. Although Western Digital currently holds higher margins, there is little room for growth as their EBITDA margin has already grown 151.98% year-over-year. The growth in Seagate's non-compute segment along with the recent operational efficiency should push the company's margins past Western Digital. Seagate is also more efficient in their capital allocation as they hold an ROIC of 23.09% vs. Western Digital's 7.86%.

Name (BI Peers)	Mkt Cap1 (USD)	Last Px	Chg Pct 1D	P/E	Rev - 1 Yr Gr:Y	EBITDA 1Yr Growth:Y	T12M EBITDA Mrgn:Y	GM:Y	OPM:Y	ROIC:Y
Median	13.63B	49.38	1.78%	12.35	2.84%	43.10%	18.01%	37.26%	12.49%	17.73%
100) SEAGATE TECHNOLOGY	11.71B	40.49	2.30%	11.60	-3.49%	43.10%	19.12%	29.47%	12.16%	23.09%
101) WESTERN DIGITAL CORP	24.10B	81.47	3.98%	12.35	46.94%	151.98%	24.03%	32.28%	12.88%	7.86%

Ownership:

The company holds a short interest of 13.7 days-to-cover. However, the 5.61% increase in hedge funds demonstrates that a short squeeze may be coming. The 21.05% increase in insider position is also promising for the stock. There is about an 8% more change in the number of buyers than the change in the number of new sellers as well.

54) Ownership Type	11/27/16	Curr	Change	
41) Investment Advisor	82.99	79.08	-3.91	↕
42) Hedge Fund Manager	6.15	11.76	+5.61	↕
43) Bank	1.59	2.19	+0.60	↕
44) Pension Fund	1.32	1.77	+0.45	↕
45) Government	1.97	1.27	-0.70	↕
46) Sovereign Wealth Fund		1.19		↕
47) Insurance Company	0.75	1.12	+0.37	↕
48) Individual	0.90	0.95	+0.05	↕
49) Brokerage	0.33	0.27	-0.06	↕

Unlevered Free Cash Flow Valuation:

Tax		20.00%	20.00%	20.00%	20.00%	20.00%	
NOPAT		792.8	846.2	910.3	970.2	1,026.8	
Capital	6,385.0	6,244.0	5,995.82	5,809.04	5,674.63	5,584.99	
CAPEX/EBITDA		52.72%	52.72%	52.72%	52.72%	52.72%	
DPR/EBITDA		11.12%	11.12%	11.12%	11.12%	11.12%	
CAPEX		418.0	446.14	479.95	511.54	541.37	
DPR		710.0	694.32	666.72	645.95	631.01	
							<u>TV</u>
	UFCF		1,094.35	1,097.07	1,104.63	1,116.43	18668.109
		16,289.75	16,514.87	16,755.50	17,008.07	17,269.30	
	Total Debt	5,002.0	5,002.0				
	Other						
	Cash	2,285.0					
	EQ	13,572.7					
	Diluted SO	296.8					
	Equity Value ps	45.7					
	Prem/Disc	18.5%					

Conclusion:

At a P/E of 11.6x, this undervalued stock must be bought. The NAND product line will be enhanced with the agreement with Toshiba Memory Corp., allowing the company to benefit from the shift to SSDs. Management's vision to create value through future increased free cash flows will serve as a key driver of the stock price going forward. Other value will be created through a growing high multiple segment and expanding margins. The shift to SSDs looks promising for the leading HDD provider Seagate Technology.

Seagate Technology plc (STX)

CENTER FOR GLOBAL FINANCIAL STUDIES

BULLISH

Analysis by RYAN

12/9/2017

Current Price:

\$40.49

Dividend Yield:

6.0%

Intrinsic Value:

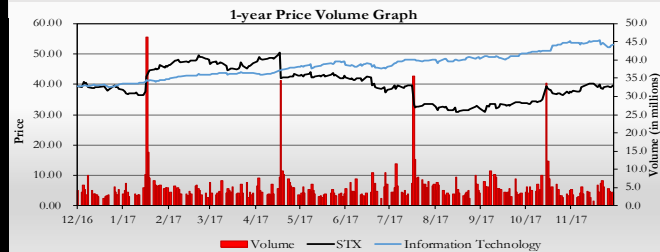
\$72.02

Target Price:

\$100.94

Target 1 year Return: 155.33%

Probability of Price Increase: 100%



Description
Seagate Technology plc provides data storage technology and solutions in Singapore, the United States, the Netherlands, and internationally.

General Information
Sector: Information Technology
Industry: Technology Hardware, Storage and Peripherals
Last Guidance: November 3, 2015
Next earnings date: January 25, 2018
Estimated Country Risk Premium: 7.53%
Effective Tax rate: 30%
Effective Operating Tax rate: #DIV/0!

Market Data
Market Capitalization: \$11,714.51
Daily volume (mil): 5.50
Shares outstanding (mil): 289.32
Diluted shares outstanding (mil): 296.75
% shares held by institutions: 116%
% shares held by investments Managers: 75%
% shares held by hedge funds: 12%
% shares held by insiders: 0.89%
Short interest: 14.57%
Days to cover short interest: 8.43
52 week high: \$50.96
52-week low: \$30.60
Volatility: 40.36%

Quarter ending	Revenue	EBITDA
9/30/2016	-0.11%	-6.68%
12/30/2016	2.54%	2.81%
3/31/2017	-1.33%	-12.82%
6/30/2017	-5.82%	-15.50%
9/29/2017	3.38%	-4.50%
Mean	-0.27%	-7.34%
Standard error	1.6%	3.2%

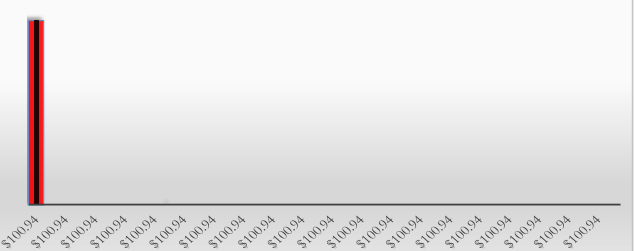
Management	Position	Total compensations growth	Total return to shareholders
Luczo, Stephen	Executive Chairman	-8.08% per annum over 6y	10.3% per annum over 6y
Mosley, William	CEO & Director	27.02% per annum over 6y	10.3% per annum over 6y
Morton, David	Executive VP of Finance, CFO	298.05% per annum over 1y	48.52% per annum over 1y
Murphy, James	Executive Vice President of	N/M	N/M
Re, Mark	Chief Technology Officer and	N/M	N/M
Naik, Ravi	Chief Information Officer	N/M	N/M

Profitability	STX (LTM)	STX (5 years historical average)	Peers' Median (LTM)
Return on Capital (GAAP)	9.5%	13.18%	20.23%
Operating Margin	7%	7.79%	8.06%
Revenue/Capital (GAAP)	1.28	1.69	2.51
ROE (GAAP)	11.3%	13.8%	15.9%
Net margin	5.0%	7.2%	7.5%
Revenue/Book Value (GAAP)	2.27	1.91	2.10

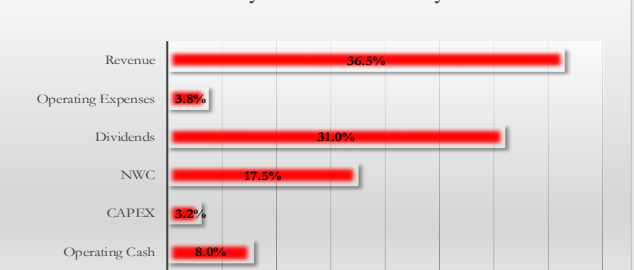
Invested Funds	STX (LTM)	STX (5 years historical average)	Peers' Median (LTM)
Cash/Capital	16.8%	19.3%	44.7%
NWC/Capital	1.4%	4.0%	0.1%
Operating Assets/Capital	68.7%	70.8%	45.1%
Goodwill/Capital	13.0%	5.9%	10.1%

Capital Structure	STX (LTM)	STX (5 years historical average)	Peers' Median (LTM)
Total Debt/Market Capitalization	0.55	0.35	0.25
Cost of Existing Debt	5.1%	6.6%	4.1%
CGFS Rating (F-score, Z-score, and default Probability)	A	D	BBB
WACC	9.4%	10.4%	8.9%

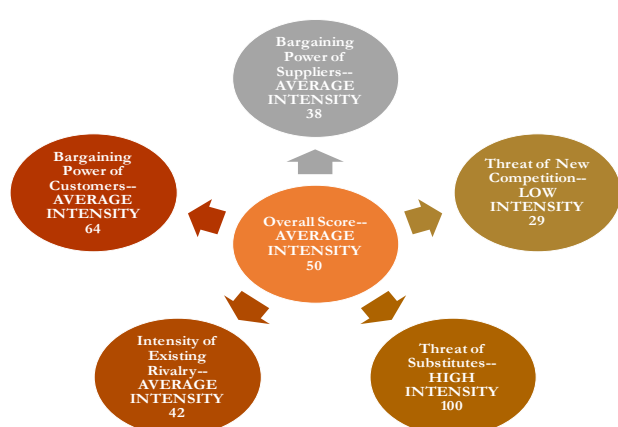
Intrinsic Value Distribution--Probability (Upside)=100%



Sensitivity Attribution Analysis



Porter's 5 forces (scores are out of 100)



Period	Revenue Growth Forecast
Base Year	-4%
9/29/2018	-5%
9/29/2019	-2%
9/29/2020	-1%
9/29/2021	3%
9/29/2022	2%
9/29/2023	1%
9/29/2024	0%
9/29/2025	0%
9/29/2026	3%
9/29/2027	-24%
Continuing Period	2%

Period	Return on Capital Forecast
Base Year	#DIV/0!
9/29/2018	#DIV/0!
9/29/2019	12.2%
9/29/2020	10.9%
9/29/2021	10.3%
9/29/2022	13.6%
9/29/2023	12.4%
9/29/2024	11.4%
9/29/2025	10.6%
9/29/2026	9.9%
9/29/2027	9.3%
Continuing Period	8.8%

Valuation	Revenue to Capital Forecast
NOPAT Margin Forecast	#DIV/0!
#DIV/0!	#DIV/0!
#DIV/0!	1.85
#DIV/0!	1.70
#DIV/0!	1.56
#DIV/0!	1.45
#DIV/0!	1.31
#DIV/0!	1.19
#DIV/0!	1.10
#DIV/0!	1.02
#DIV/0!	0.95
#DIV/0!	0.89

WACC Forecast	Price per share Forecast
9.4%	\$84.90
10.8%	\$98.01
10.9%	\$109.99
10.9%	\$122.41
10.9%	\$135.05
11.0%	\$147.89
11.1%	\$160.86
11.1%	\$173.97
11.2%	\$187.19
11.2%	\$200.45
11.3%	\$213.76
11.3%	

Below, insert a screenshot of your “OUTPUT” page from the Pro-Forma. Or, if you built your own model, insert screenshot of it here.