

NETAPP INC (NASDAQ GS: NTAP, Currency: USD) Purchased on 7/15/22 at \$65.21

Bloomberg Rating: IG2 Sector: Information Technology Industry: Technology Hardware, Storage & Sub-Industry: Technology Hardware, Storage & FY End:

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.

Business Segments (FY: Apr-22)	Revenue
Hybrid Cloud	5,922.00
Public Cloud	396.00

Key Statistics	
52-Week Range	61.26 - 96.82
Avg Daily Vol (3 Mo)	1,722,431
Market Value	15,963.7
Current Enterprise	14,769.72
Shares Outstanding	219.73 M
Dividend Yield	2.8%
Float %	99.6%
Institutional %	99.6%
Analyst Coverage	22 Analysts
Target Price	85.74
LT Growth Rate	-
Consensus Rating	4.05
Return on Equity	123.0%

	Actual and Estimate Data		
	LTM	04/2023	04/2024
Revenue	6,318.00	6,712.55	7,189.10
% change y/y		6.2%	7.1%
EBITDA	1,443.00	1,774.23	1,953.46
% Margin		5.0%	10.1%
EPS	4.263621	5.473	6.003
% change y/y		3.7%	9.7%
EV/Sales	2.4x	2.1x	1.9x
EV/EBITDA	10.3x	8.2x	7.4x
P/Sales	2.6x	2.4x	2.2x
P/Earnings	17.0x	13.3x	12.1x
P/Book	19.1x	15.7x	11.5x

Relative Comps	Mkt Cap	PE (NTM)
NetApp Inc	15.96 B	13.3x
Pure Storage	8.63B	31.0x
Western Digital Corp	14.90 B	17.1x

Recommendation

We recommend purchase of NetApp (Nasdaq:NTAP) shares based upon the company's strong near-term fundamental trends, longer-term catalysts and compelling valuation. Our 12-month price target of \$95 represents 45% upside from our recent purchase price of \$65.

Fundamental Trends / Catalysts

Over the next couple of years, we see NTAP's revenues advancing at a mid to high single digit pace driven by secular growth in Cloud based storage infrastructure. Operating income should grow 10% plus due to an expansion in profitability based upon an improved product mix (more flash-based hardware vs hard disk drive solutions) along with increased software and service offerings. We estimate earnings per share growth of approximately 15% as operating profit growth is levered by ongoing large share repurchases. Key cloud customers including Amazon's AWS and Microsoft's Azure have recently provided strong future outlooks which should bode well for NTAP's business results. Despite severe cost inflation and supply chain issues, NTAP has been able to deliver robust operating results in recent quarters. Cost inflation headwinds, including NAND Flash Memory input prices, maybe peaking as indicated by key suppliers including Micron, Western Digital, and Samsung. Management has also indicated that they have 'expense levers' they could pull to maintain profits in the event of a minor economic slowdown. At a recent investor day conference, NTAP management guided to a quadrupling of public cloud based revenues (from \$500m to \$2b by 2025) and provided a favorable update to its long-term operating model which targets 8% revenue growth, 70% Gross Margins, 25% Operating Margins, and EPS growth that exceeds sales growth by the year 2025. Encouragingly, NTAP has exceeded their long-term targets provided at past investor meetings.

Balance Sheet / Cash Flow

NetApp has a pristine balance with cash levels exceeding total debt. NTAP's current net cash position is over \$1.2 billion or \$5.40 per share. NTAP has generated consistently strong Free Cash Flow (FCF) over the past several years. Following two small acquisitions in fiscal 2021 and 2022, NTAP recently resumed their large share repurchase program. NTAP has annually bought back an average of \$1b in stock over the past 8 years. NTAP plans to allocate 2/3 of its free cash flow in buybacks and the rest to investments in the cloud space.

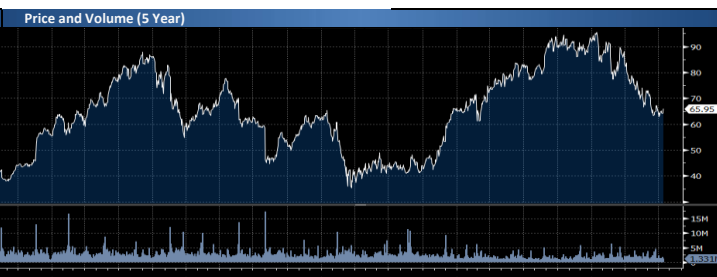
Valuation

Currently priced at \$65 per share, shares in NetApp Inc. (NTAP) present a compelling valuation opportunity. NTAP trades at 12x next year's estimated earnings, representing a 30% discount to the overall market (S&P 17x) and the lower end of the company's 10 year P/E range (9-18x). NTAP is also attractive on additional measures of valuation including EV/ Ebitda (7.8x) and Free Cash Flow Yield (6.2%). Based upon our 3-stage discounted cash flow (DCF) model, using conservative inputs, we derive an intrinsic value estimate of \$95 per share. Upside potential to our target is possible if NetApp can successfully execute on its plan to transition its business from a legacy enterprise storage provider towards a faster growing / higher margin, flash memory and cloud-based software and services solutions company. For example, its competitor, Pure Storage (PSTG) trades at 27x earnings and 17x Ebitda more than double NTAP's current valuations.

Risks

Key risks to our investment recommendation include: a potential slowdown in enterprise spending, more aggressive price competition, ongoing cost inflation and supply chain constraints. Another emerging risk is management's ability to successfully integrate the operations of future M&A transactions, as recently acquired businesses have experienced order cancellations and delays, and lost clients, along with management and sales force turnover.

Measure:	Revenues			
	2021	2022	2023	2024
Q1 Jul	1303.00	1458.00	1552.63	1681.83
Q2 Oct	1416.00	1566.00	1657.15	1761.92
Q3 Jan	1470.00	1614.00	1712.45	1816.33
Q4 Apr	1555.00	1680.00	1791.35	1899.50
Year	5744.00	6318.00	6712.55	7189.10
Cal Yr	6145.00	6569.42	7016.81	7028.72
Revision	1 Week	4 Weeks	3 Months	6 Months
Qtr End 07/22	0.0%	-0.2%	-1.3%	0.2%
Qtr End 10/22	0.0%	-0.1%	-1.1%	0.5%
FY End 04/23	0.0%	0.0%	-0.9%	0.6%
FY End 04/24	0.0%	-0.3%	-1.5%	2.4%



Prices/Volume	
YTD Change	-21.02%
6 Month Change	-16.80%
3 Month Change	-16.1%
1 Year Change	18.5%
Daily Volume	899,940
Average Volume 30 Day	1,400,198
Average Volume 3 Month	1,722,431
Average Volume 6 Month	1,821,111
Dividend Yld	2.8%
52 Week Beta	0.93

Measure:	EPS			
	2021	2022	2023	2024
Q1 Jul	0.35	0.88	0.86	1.03
Q2 Oct	0.61	0.98	1.07	1.21
Q3 Jan	0.80	1.10	1.21	1.30
Q4 Apr	1.46	1.14	1.32	1.42
Year	3.23	4.09	4.51	5.06
Cal Yr	4.32	4.24	4.83	5.33
Revision	1 Week	4 Weeks	3 Months	6 Months
Qtr End 07/22	0.0%	0.2%	2.0%	-
Qtr End 10/22	0.0%	0.5%	-0.7%	-
FY End 04/23	0.0%	0.1%	-3.0%	-
FY End 04/24	0.0%	-0.4%	-3.9%	-

Performance	2014	2015	2016	2017	2018	2019	2020	2021	2022	5 Yr Avg
Price Change	0.4%	3.2%	-34.6%	68.6%	69.1%	6.7%	-40.1%	73.5%	-1.9%	21.4%
S&P 500 INDEX	29.6%	11.4%	-0.7%	9.5%	19.4%	-6.2%	28.9%	16.3%	26.9%	17.0%
Industry (INDU Index)	26.5%	7.5%	-2.2%	13.4%	25.1%	-5.6%	22.3%	7.2%	18.7%	13.6%
Div Yield	1.5%	1.6%	2.7%	2.2%	1.4%	2.7%	3.1%	2.9%	2.2%	2.5%
Financials	04/14 Y	04/15 Y	04/16 Y	04/17 Y	04/18 Y	04/19 Y	04/20 Y	04/21 Y	04/22 Y	5 Yr CAGR
Sales	6,325.0	6,123.0	5,546.0	5,519.0	5,919.0	6,146.0	5,412.0	5,744.0	6,318.0	2.7%
EBITDA	1,068.0	1,023.0	627.0	891.0	1,356.0	1,418.0	1,193.0	1,293.0	1,412.0	9.6%
EBIT	734.0	716.0	348.0	665.0	1,158.0	1,221.0	945.0	1,031.0	1,157.0	11.7%
Net Income	638.0	560.0	229.0	509.0	116.0	1,169.0	819.0	730.0	937.0	13.0%
EPS (Diluted)	1.83	1.75	0.77	1.81	0.42	4.51	3.52	3.23	4.09	17.7%
Dividends per Share	0.60	0.66	0.72	0.76	0.80	1.60	1.92	1.92	2.00	21.4%
Shares for Fully Diluted	348.0	321.0	297.0	281.0	276.0	259.0	233.0	226.0	229.0	-4.0%
Book Value per Share	11.67	11.15	10.25	10.33	8.65	4.54	1.11	3.09	3.81	-18.1%
Cash & Near Cash	2,291.0	1,921.5	2,868.0	2,444.0	2,941.0	2,325.0	2,658.0	4,529.0	4,112.0	11.0%
Total Assets	9,213.8	9,401.2	10,037.0	9,493.0	9,991.0	8,741.0	7,522.0	9,360.0	10,026.0	1.1%
Working Cap	3,776.7	4,064.4	2,786.0	2,076.0	3,421.0	1,743.0	658.0	2,549.0	1,992.0	-0.8%
LT Debt	990.1	1,487.5	1,490.0	744.0	1,541.0	1,144.0	1,239.0	2,703.0	2,643.0	28.9%
Cash Flow-Oper Activiti	1,350.0	1,268.0	974.0	986.0	1,478.0	1,341.0	1,060.0	1,333.0	1,211.0	4.2%
Capital Expenditures	221.0	175.0	160.0	175.0	145.0	173.0	124.0	162.0	226.0	5.2%
Free Cash Flow	1,129.0	1,093.0	814.0	811.0	1,333.0	1,168.0	936.0	1,171.0	985.0	4.0%
Ratios	04/14 Y	04/15 Y	04/16 Y	04/17 Y	04/18 Y	04/19 Y	04/20 Y	04/21 Y	04/22 Y	5 Yr Avg
Gross Margin	62.0%	62.6%	60.8%	61.4%	62.7%	64.2%	66.9%	66.4%	66.8%	65.4%
EBITDA Margin	16.9%	16.7%	11.3%	16.1%	22.9%	23.1%	22.0%	22.5%	22.3%	22.6%
EBIT Margin	11.6%	11.7%	6.3%	12.0%	19.6%	19.9%	17.5%	17.9%	18.3%	18.6%
Profit Margin	10.1%	9.1%	4.1%	9.2%	2.0%	19.0%	15.1%	12.7%	14.8%	12.7%
Return on Assets	6.2	6.0	2.4	5.2	1.2	12.5	10.1	8.6	9.7	8.4
Return on Com Eqty	15.0	15.6	7.3	18.0	4.6	69.5	123.0	157.5	123.0	95.5
Asset Turnover	0.6	0.7	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.7
Assets/Equity	2.4	2.8	3.5	3.4	4.4	8.0	31.1	13.7	12.0	13.8
Net Inc per 1000 Employ	51.1	43.7	19.0	50.4	11.3	111.3	75.8	66.4	78.1	68.6
Days Sales Out (DSO)	47.7	48.6	53.2	50.9	54.7	67.0	73.6	61.9	62.7	64.0
Acc Pay Turn Days (DPO)	38.6	41.7	46.9	49.9	80.2	94.8	97.7	82.7	85.4	88.2
Current Ratio	2.4	2.5	1.8	1.5	2.0	1.5	1.2	1.7	1.5	1.6
Quick Ratio	2.2	2.3	1.7	1.4	1.8	1.3	1.1	1.6	1.4	1.4
Total Debts/Total Capit	20.7	30.3	44.8	41.8	45.8	62.2	88.2	80.1	77.8	70.8
Total Debt/Total Equity	26.1	43.6	81.2	71.7	84.6	164.5	748.8	401.8	350.8	350.1

Growth Rate (CAGR) Summary				
	1Yr	3Yr	5Yr	10Yr
Sales	10.0%	0.9%	2.7%	0.1%
EBIT	12.2%	-1.8%	11.7%	4.5%
EBITDA	9.2%	-0.1%	9.6%	3.1%
Net Income	28.4%	-7.1%	13.0%	4.5%
EPS (Diluted)	26.6%	-3.2%	17.7%	10.0%
Dividends	4.2%	7.7%	21.4%	-
BVPS	23.4%	-5.7%	-18.1%	-10.7%
Free Cash Flow	-16.3%	-1.3%	8.4%	4.3%
Valuation Summary				
Current	5 Years			
	4/30/2022	High	Low	Avg
P/E (LTM)	17.2x	27.3x	15.3x	20.9x
P/E (NTM)	12.9x	17.0x	12.3x	14.5x
PEG (NTM)	1.5x	2.5x	0.6x	1.6x
P/Bk	19.2x	59.9x	5.4x	22.5x
P/CF	13.5x	15.4x	10.8x	13.5x
P/Sales	2.6x	3.6x	2.8x	2.8x
EV/EBITDA	10.6x	11.4x	7.0x	10.0x
EV/Sales	2.4x	2.6x	1.5x	2.3x
Div Yield	2.7%	2.9%	1.3%	2.2%

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