

Seagate Technology

Seagate: The Storage Markets Quiet Main Character

Seagate is well positioned to outperform as the first mover in HAMR technology, enabling higher storage density at lower cost and placing the company at the center of accelerating data growth driven by AI and hyperscale cloud expansion. **We initiate \$STX with a BUY rating and a 12-month price target of \$250.**

Thesis 1

Seagate is well positioned to outperform its competitors thanks to its consistent focus on innovation. The company’s launch of heat-assisted magnetic recording (HAMR) technology in 2023, branded as Mozaic 3+ is a game-changer for the hard drive industry. HAMR uses a tiny laser to briefly heat disk material during the writing process, allowing data to be packed more densely while driving down cost per terabyte. This addresses the industry’s biggest challenge: meeting rapidly growing storage demand with higher-capacity, lower-cost solutions. Since the debut of HAMR, Seagate’s stock has nearly tripled, climbing from \$85 at the end of 2023 to around \$255 today, underscoring investor confidence in the technology’s impact. With global data compounding every year, Seagate’s first-mover advantage and proven history of breakthroughs give it a clear edge in gaining market share and expanding margins. The combination of disruptive technology, accelerating demand, and strong execution makes Seagate a compelling buy.

Thesis 2

Seagate is on track to be a major beneficiary of the exponential growth in global data creation fueled by AI, cloud computing, video, and IoT. As enterprises and hyperscale’s race to expand storage capacity, Seagate’s leadership in high-capacity drives positions it at the center of this demand surge. The cloud storage market is projected to more than double from \$124 billion in 2025 to \$269 billion by 2029, creating a massive tailwind for the company. This demand is already reflected in Seagate’s results, with recent reports showing revenue up 30% year-over-year and gross margins improving for nine consecutive quarters. Free cash flow nearly doubled in the most recent June quarter to \$425 million, up from \$216 million the prior period, highlighting stronger profitability and operating leverage. As HAMR adoption accelerates and AI-related workloads continue to scale, Seagate stands to capture both market share and expanding earnings power. The company’s exposure to one of the fastest-growing technological trends makes it a compelling long-term investment.

Thesis 3

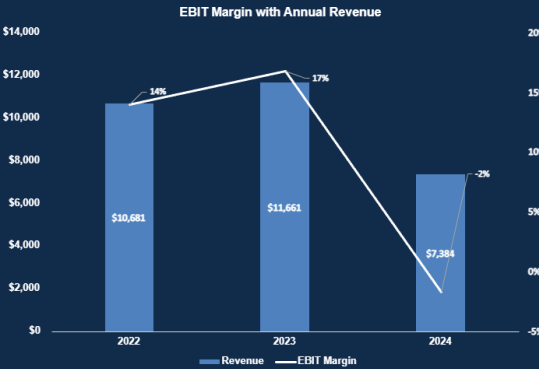
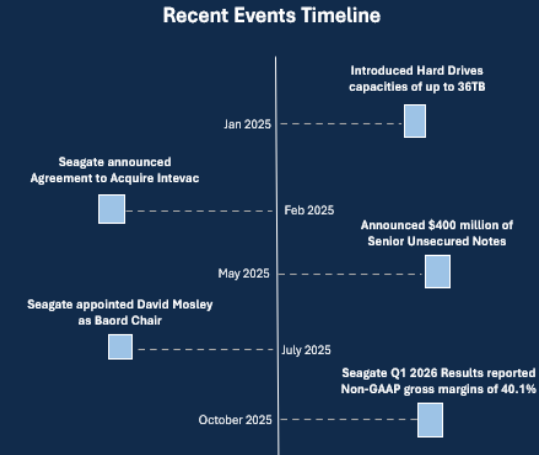
Seagate continues to benefit from a favorable global trade environment, facing only minimal tariff-related impacts thanks to a mix of international policy advantages and strategic positioning. Under Section 232 of the Trade Expansion Act, the U.S. imposed tariffs on steel and aluminum, but Seagate was granted exemptions since the specialized metals needed for hard drives aren’t made domestically in sufficient supply. The USMCA, which replaced NAFTA, also removed Section 232 tariffs on goods traded between the U.S., Mexico, and Canada, allowing Seagate’s major manufacturing operations in Mexico to ship parts and finished drives into the U.S. without added costs. Combined with the absence of tariffs on critical components imported from Asia, these policies let Seagate keep costs competitive and manufacturing efficient, an essential advantage in the price-sensitive hardware industry. CEO Dave Mosley recently emphasized that the company expects only “minimal tariff-related impacts,” a testament to how Seagate’s global footprint, from its past base in Singapore to its current headquarters in Dublin, has helped insulate it from trade risks while supporting stable margins and long-term growth.

Company Overview

Founded in 1979 by Al Shugart, Seagate is a global leader in data storage solutions, specializing in HDDs (up to 35TB) and enterprise SSDs (up to 30TB) with SATA, SAS, and NVMe interfaces. The company pioneered the first 5.25-inch Hard Drive Disk (HDD) in 1980 and has since made 19 acquisitions to expand its capabilities. Headquartered in Dublin, Ireland with their operations headquarters in Fremont, CA, Seagate is led by CEO Dave Mosley, under whom the stock has performed strongly. The company fosters a culture of inclusion and innovation, driving leadership in both consumer and enterprise storage markets. Today, Seagate and Western Digital currently are in a duopoly, however Seagate is outperforming Western Digital in both performance and positioning. Beyond financial, Seagate’s HAMR technology provides a clear edge in next-generation, high-capacity storage. Adding to its appeal, management recently announced plans to resume share buybacks later this quarter, reinforcing its commitment to delivering shareholder value.



TICKER:	\$STX
RATING:	BUY
PRICE:	\$223.00
PRICE TARGET:	\$250.00
MARKET CAP:	\$56.26B
52-W RANGE:	\$63.19-265.60
P/E:	32.94x
IMPLIED UPSIDE:	12%



Risk 1 Seagate faces extensive risk in maintaining technological leadership amid intensifying competition in the data storage industry. As AI-driven data creation accelerates, continued innovation and rapid product development will be essential for them to stay leading the hard drive industry. Any slowdown in R&D progress or challenges in attracting top engineering talent could weaken Seagate’s competitive position against Western Digital and other major players.

Risk 2 Seagate has publicly positioned HAMR as its defining competitive edge and long-term differentiator. If reliability or timing disappoints, investor confidence could drop drastically, potentially resulting in multiple compression (seen with WDC’s late NAND transition). Because Seagate has concentrated much of its R&D investment and market narrative around HAMR, any production setback or delay could negatively impact investor confidence and valuation in the overall company. In short, Seagate’s near-term upside is closely tied to its ability to scale HAMR efficiently and maintain trust among customers.

Risk 3 Seagate’s heavy investment in manufacturing capacity, next-generation product platforms, and media technologies exposes the company to execution risk. Investing too aggressively or too early could lead to excess capacity and underutilized assets, while under-investing or mistiming production could leave the company unable to capture demand. Given current concerns around a potential AI-driven hardware bubble, Seagate must be highly disciplined in capital allocation and timing. For instance, overcommitting advanced drive platforms during a cyclical slowdown could negatively impact returns and limit flexibility in future investment cycles.

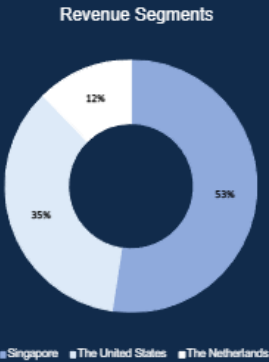
Catalysts Seagate's HAMR is a double-edged sword, it carries the company's highest upside, and the highest downside. However, successful HAMR commercialization represents Seagate’s most significant catalyst. The technology unlocks industry-leading areal density and cost-per-terabyte advantages, positioning Seagate as the clear performance leader in storage. Broader adoption by hyperscale cloud providers could meaningfully expand margins and cash flow, supporting valuation re-rating and enhanced shareholder returns. As AI and cloud workloads drive exponential data growth, HAMR adoption would validate Seagate’s innovation leadership and fuel a multi-year earnings recovery.

Valuation – PT \$250

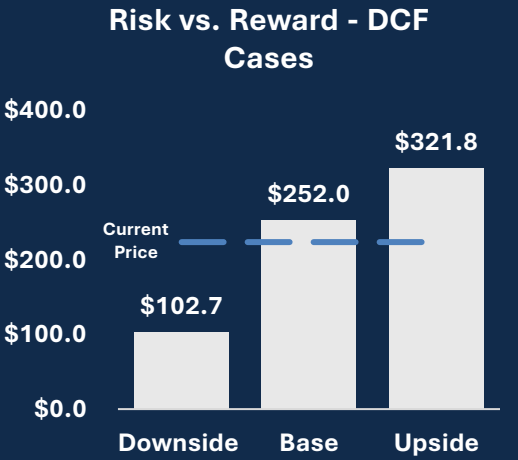
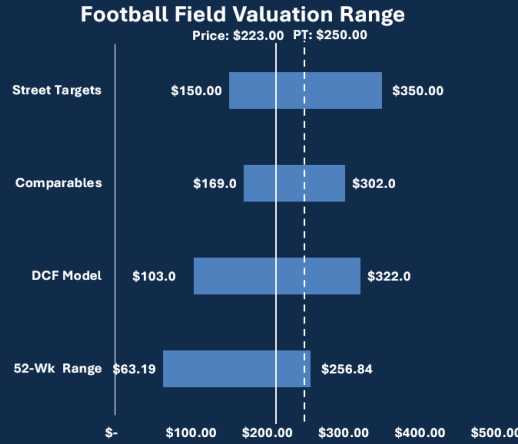
DCF Analysis (\$mm)						
	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030
	12/31/2025	12/31/2026	12/31/2027	12/30/2028	12/30/2029	12/31/2030
Stub	0.83	1.83	2.83	3.83	4.83	5.83
Discount Period	0.08	0.67	1.67	2.67	3.67	4.67
Revenue	9,097	10,750	12,528	14,527	16,665	18,915
Revenue Growth	39%	18%	17%	16%	15%	13%
Singapore	3,759	4,100	4,535	5,081	5,768	6,634
The United States	4,410	5,500	6,684	7,854	8,933	9,827
The Netherlands	924	1,150	1,310	1,592	1,963	2,454
EBIT	1,928	2,676	3,163	3,704	4,291	4,918
EBIT Margin	21%	25%	25%	26%	26%	26%
Tax Expense	44	425	430	42	40	39
Effective Tax Rate	2%	16%	14%	1%	1%	1%
NOPAT	1,884.00	2,251.43	2,733.36	3,662.42	4,251.31	4,878.83
D&A	350	412	487	570	660	757
Capex	400	471	507	537	558	567
Changes in NWC	(200)	(235)	(214)	(178)	(123)	(47)
UFCF	2,034	2,792	3,264	3,780	4,331	4,908
PV of FCF	2,016	2,603	2,740	2,858	2,949	3,010

Seagate’s outlook strengthens as revenue grows at a 22% CAGR and EBIT margins jump from 6.6% to 26% through 2030. The margin recovery drives EV/EBITDA from 84.0x to a reasonable 12.0x following earnings normalization. Free cash flow also improves, with FCF yield rising from 1.0% to 7.1%. On normalized earnings, Seagate screens are increasingly attractive versus storage competitors and benefit from clear operating leverage as HAMR adoption continues.

Conclusion Seagate is well positioned for sustained out performance, supported by its leadership in next generation high-capacity storage. The rollout of HAMR 3+ provides a measurable cost-per-terabyte and density advantage, aligning directly with accelerating data demand for AI, cloud, and hyperscale workloads. **We initiate \$STX with a BUY rating, and a PT of \$250.**



Terminal Value	
Exit Multiple Method	
2034 EBITDA	\$5,674
EV/EBITDA Exit Multiple	12.0x
Terminal Value	\$68,093
PV of Terminal Value	\$41,841
PV of Projection Period	\$16,195
PV of Terminal Value	\$41,841
Implied TEV	\$58,035
(-) Debt	\$5,373
(+) Cash	\$891
Implied Equity Value	\$53,553
Diluted Shares Outstanding	214
Implied Share Price	\$250.25
Upside/Downside	12.2%



Income Statement (\$mm)	2024A	2025E	2026E	2027E	2028E	CAGR%
Revenue	6,551	9,097	10,750	12,528	14,527	22.0%
EBITDA	685	2,278	3,026	3,650	4,274	58.1%
EBIT	434	1,928	2,676	3,163	3,704	70.9%
NOPAT	324	1,884	2,251	2,733	3,662	83.4%

Margin & Growth Data	2024A	2025E	2026E	2027E	2028E	AVG%
EBITDA Margin	10.5%	25.0%	28.2%	29.1%	29.4%	24.4%
EBIT Margin	6.6%	21.2%	24.9%	25.3%	25.5%	20.7%
Revenue Growth	-11.3%	38.9%	18.2%	16.5%	16.0%	15.7%
EBIT Growth	-450.0%	344.2%	38.8%	18.2%	17.1%	-6.3%

Valuation Metrics	2024A	2025E	2026E	2027E	2028E	AVG%
P/FCF	105.0x	28.2x	20.6x	17.6x	15.2x	37.3x
EV/Sales	9.5x	6.8x	5.8x	4.9x	4.3x	6.3x
EV/EBITDA	90.4x	27.2x	20.0x	17.0x	14.5x	33.8x
FCF Yield	1.0%	3.5%	4.9%	5.7%	6.6%	4.3%

Comparable Companies

\$mm

Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM
Western Digital Corporation (NasdaqGS:WDC)	\$43,261	\$45,874	28.4x	\$9,520	\$2,473
NetApp, Inc. (NasdaqGS:NTAP)	\$23,769	\$23,184	21.0x	\$6,590	\$1,644
Sandisk Corporation (NasdaqGS:SNDK)	\$20,537	\$21,124	-12.4x	\$7,355	\$670
Pure Storage, Inc. (NYSE:PSTG)	\$30,185	\$28,873	224.0x	\$3,350	\$203
Seagate Technology Holdings PLC	\$47,937	\$52,419	33.3x	\$9,097	\$2,179

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	1 Yr Rev Growth Rate LF
Western Digital Corporation (NasdaqGS:WDC)	18.5x	38.8%	26.0%	22.4%	50.7%
NetApp, Inc. (NasdaqGS:NTAP)	14.1x	70.0%	24.9%	21.8%	3.3%
Sandisk Corporation (NasdaqGS:SNDK)	31.5x	30.1%	9.1%	6.9%	10.4%
Pure Storage, Inc. (NYSE:PSTG)	142.4x	69.2%	6.1%	2.3%	11.3%
Seagate Technology Holdings PLC	24.1x	35.3%	24.0%	21.2%	38.9%

High	142.37x	70.0%	26.0%	22.4%	50.7%
75th Percentile	31.53x	69.2%	24.9%	21.8%	38.9%
Average	46.12x	48.7%	18.0%	14.9%	22.9%
Median	24.06x	38.8%	0.0%	21.2%	11.3%
25th Percentile	18.55x	35.3%	9.1%	6.9%	10.4%
Low	14.10x	30.1%	6.1%	2.3%	3.3%

Seagate Technology Holdings PLC

Implied Enterprise Value (25th Percentile)	\$	40,420
Implied Enterprise Value (Median)	\$	52,419
Implied Enterprise Value (75th Percentile)	\$	68,701

Implied Share Price (25th Percentile)	\$	168.28
Implied Share Price (Median)	\$	224.47
Implied Share Price (75th Percentile)	\$	300.71

Weighted Average Cost of Capital (\$mm)	
Market Risk Premium	4.33%
Beta	1.63
Risk Free Rate	4.39%
Cost of Equity	10.47%
Weighted Average Cost of Debt	5.41%
Tax Rate	2.28%
Cost of Debt	0.46%
Total Equity	\$56,569
Total Debt	\$4,482
Equity/Total Capitalization	91.33%
Debt/Total Capitalization	8.67%
WACC	10.93%

Downside Case: If HAMR adoption proves slower and competitive pricing intensifies, EBIT margins top out closer to ~20% by 2030, well below the ~26% assumed in the base case. We also apply an 8.0x exit multiple, reflecting a more cautious view on the durability of Seagate's technology moat. Under this setup, free cash flow is meaningfully lower and the valuation compresses accordingly, resulting in a materially softer outcome versus our base case with a price of \$103.

Upside Case: In our upside case, Seagate's HAMR scale out faster than expected, allowing the company to capture outsized share of high-capacity storage demand from hyperscale's and AI data centers. This drives stronger top-line growth across key regions and lifts EBIT margins to ~30% by 2030 as higher-density drives improve pricing power and operating leverage. This values STX at a price of \$322 per share.

Disclosures and Ratings: Bluegrass Capital Research does not hold any professional relationships with the securities mentioned in this report. Our ratings are defined as follows: **Buy** (expected to outperform the market), **Hold** (expected to perform in line with the market), and **Sell** (expected to underperform the market), typically over a 12-month horizon. This report is for educational and informational purposes only and should not be considered as financial advice.