



NetApp™



WIC

Investment Analysis &
Recommendation

Investment Thesis



1

NetApp has a demonstrated history of persistent growth and consistently beating Wall Street Estimates.

2

NetApp's High Free Cash Flow generation along with their strong customer base and existing infrastructure makes them an optimal acquisition platform.

3

NetApp is significantly undervalued based on both intrinsic and relative valuation metrics.

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NetApp Company Overview



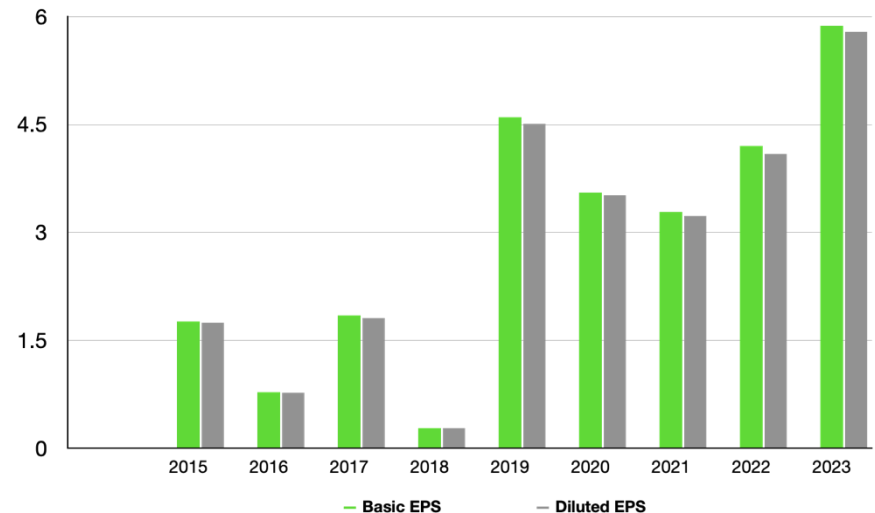
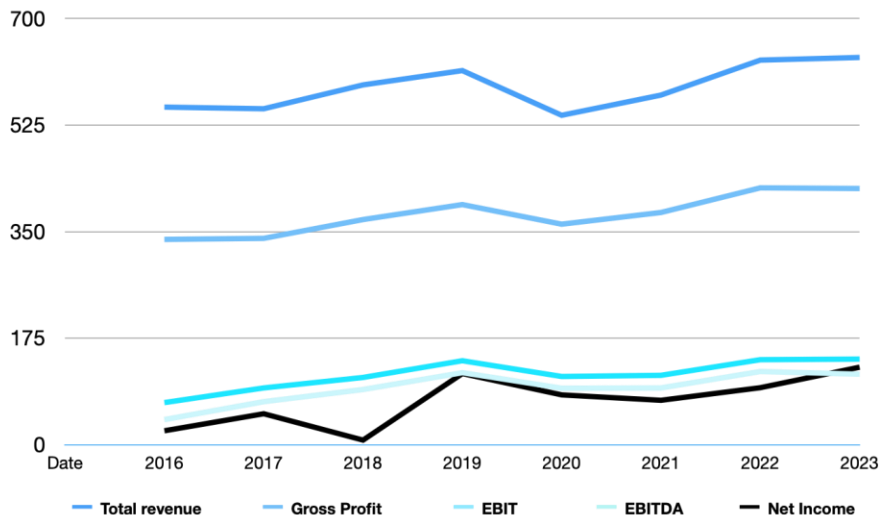
Company History

NetApp, Inc. is an American data storage and data management services company headquartered in San Jose, California. It had its initial public listing in 1995 when its stock price skyrocketed due to the internet bubble year of mid 1990s to 2001.

Though stock price drastically declined after the bubble burst, NetApp gradually became one of the most renowned companies in data storage space for companies of different sizes and verticals.


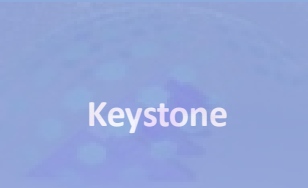

Operational History

(\$ in million)



NetApp Major Product Lines

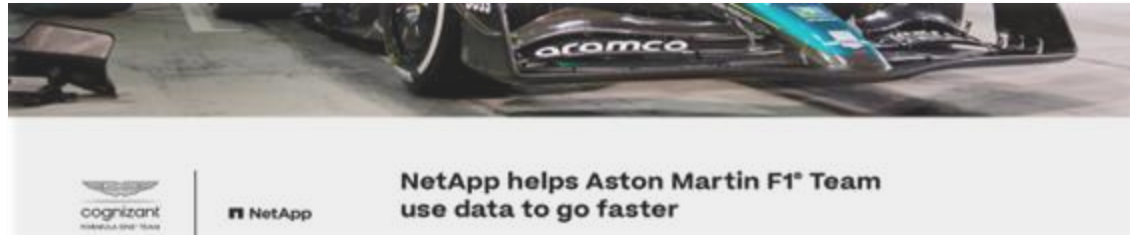


Product Name	Product Description	Use Cases
 Cloud Volumes ONTAP	Primarily used for managing and optimizing data storage in the cloud (data tiering, data replication, data deduplication, etc.)	Enterprises that have already migrated or are in the process of migrating their data to the cloud platforms like AWS, Azure, and GCP
 Keystone	Organizational storage as a service based on their needs that can be deployed on-premises, in the cloud or a hybrid fashion	Organizations with workloads that demand high-speed data access and low latency, such as financial institutions, healthcare providers, and content delivery services
 All Flash Storage	Hardware-based storage solutions that use flash (SSD) technology for high-performance data storage and high workloads	Enterprises of all sizes: This subscription-based model can accommodate the needs of small, medium, and large organizations

Use Cases Highlight



Sports / Data Analytics



Entertainment / Data Storage and Infrastructure



Medicine / Data Optimization



And More...



Management Team Highlight & Risk



**George Kurian
(CEO)**

- Joined in 2011, named CEO in June 2015
- Responsible for strategy and development of NetApp's product and solutions portfolio
- Prior, he was vice president and general manager of the Application Networking and Switching Technology Group at **Cisco Systems**



**César Cernuda
(President)**

- Named president in June 2020
- Led NetApp's go-to-market strategy and client facing tasks
- Prior, he served as **president of Microsoft** Asia Pacific, president of Microsoft Latin America, and global corporate vice president of the brand



**Harvinder Bhela
(EVP & CPO)**

- Joined in 2022
- Responsible for NetApp's product and engineering teams in our ongoing transformation into a multi-cloud, storage, and data services leader
- Prior, he served as **Corporate Vice President of the Microsoft 365 Security**, Compliance and Management business, and built the company's Exchange business

Company Drivers

(3) Company Collaborations



- 3.63% of company revenue and 0.08% of company COGS
- 99% gross profit margin
- Been with NetApp for 12 years



- 2.24% of company revenue
- Azure NetApp Files – file storage service
- 25 year partnership



- 24% of company revenue
- Distributor of NetApp products and solutions



- 21% of company revenue
- Merger between Tech Data and Synnex
- Largest IT Distributor

Source:
1. TBU

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Public Cloud Strategy



Public Cloud Growth

- Cloud Infrastructure Optimization - cloud cost management, resource management, cloud tasks automation, high availability and performance
- Cloud Infrastructure Optimization Market Size - \$11.4 billion (2022)
 - 15.4% CAGR
- The Cloud Computing market is projected to reach \$2,432.87 billion by 2030 and end users are constantly looking to optimize costs

NetApp Public Cloud Positioning

- NetApp Public Cloud Revenue Targets
 - FY24 - \$1 billion
 - FY25 - \$2 billion
- William Blair estimates a 50% CAGR for NetApp's public cloud revenue
- Public Cloud Infrastructure Savings
 - Costs before Spot by NetApp - \$12.5 million
 - Costs after Spot by NetApp - \$9.9 million

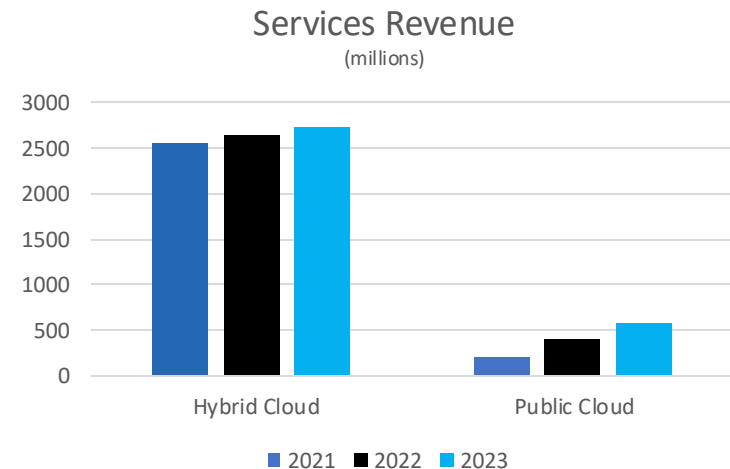
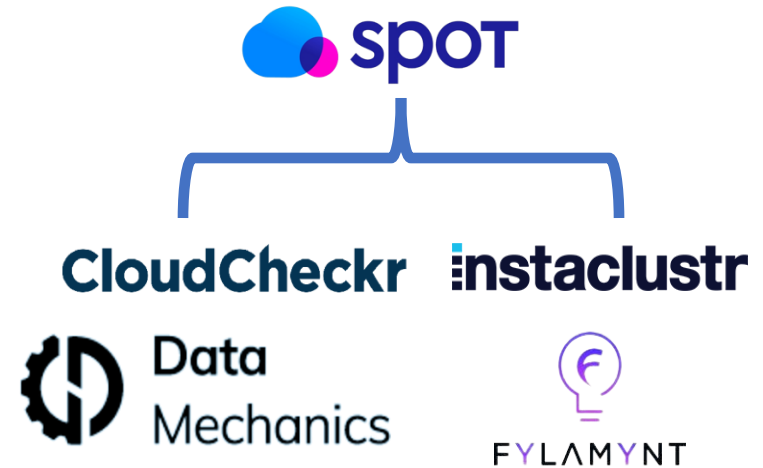


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Cash Flow Summary

Assumes Refinancing at SOFR + 1.50%, Base Case



	Wall Street Forecast			Illustrative Extrapolation			
	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Net Income	1,266.0	1,327.5	1,412.8	1,439.8	1,468.0	1,503.4	1,532.8
Less: Change in Net Working Capital	32.9	(41.9)	(51.7)	(21.9)	(22.4)	(22.9)	(23.3)
Plus: Non Cash Operating Lease Cost	52.0	52.0	52.0	52.0	52.0	52.0	52.0
Plus: Depreciation	235.6	208.8	196.5	201.3	206.3	211.5	216.7
Less: Change in Deferred Taxes	(144.0)	(144.0)	(144.0)	(144.0)	(144.0)	(144.0)	(144.0)
Plus: SBC	50.4	44.7	42.0	43.1	44.1	45.2	46.4
Cash Flows from Operations	1,492.9	1,447.0	1,507.6	1,570.3	1,604.1	1,645.2	1,680.6
Less: Capital Expenditures	(175.8)	(190.2)	(168.0)	(172.2)	(176.4)	(180.8)	(185.3)
Less: Other Investing Activity	(432.0)	(432.0)	(432.0)	(432.0)	(432.0)	(432.0)	(432.0)
Cash Flows from Investing	(607.8)	(622.2)	(600.0)	(604.2)	(608.4)	(612.8)	(617.3)
Total Cash Flow Before Financing	885.1	824.8	907.6	966.1	995.6	1,032.4	1,063.2
Beginning Cash Balance	2,316.0	2,501.1	2,625.9	2,833.5	3,099.6	3,395.2	3,727.6
Less: Minimum Cash Balance	(1,000.0)	(1,000.0)	(1,000.0)	(1,000.0)	(1,000.0)	(1,000.0)	(1,000.0)
Plus: Operating & Investing Cash Flows	885.1	824.8	907.6	966.1	995.6	1,032.4	1,063.2
Cash Available to Paydown Debt	2,201.1	2,325.9	2,533.5	2,799.6	3,095.2	3,427.6	3,790.9
Less: Dividend Payout	(350.0)	(350.0)	(350.0)	(350.0)	(350.0)	(350.0)	(350.0)
Plus: Minimum Cash Balance	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0
Ending Cash Balance	2,316.0	2,501.1	2,625.9	2,833.5	3,099.6	3,395.2	4,090.9

Source:

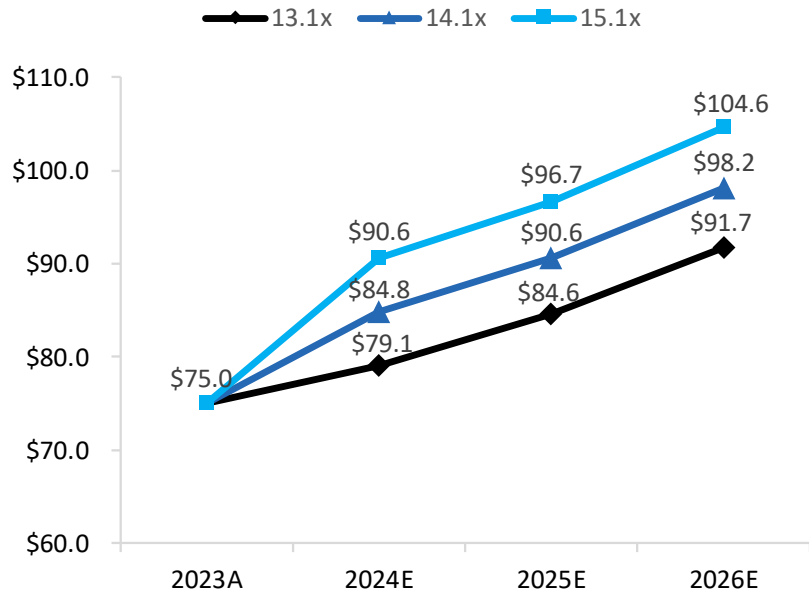
1. TBU

Present Value of Future Stock Price Analysis

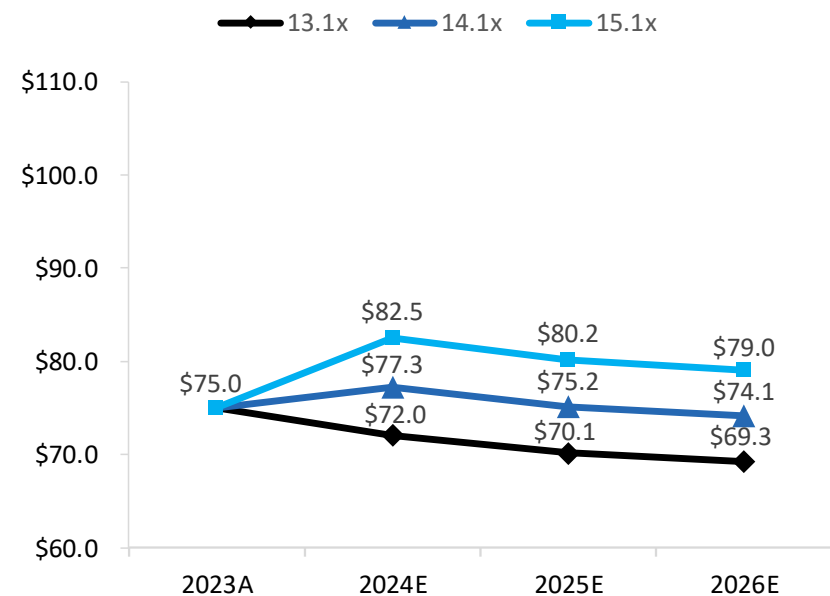
Standalone (Unadjusted)



Future Stock Price (Undiscounted)



Present Value at 9.8% Cost of Equity



EPS

FCF After Debt Service

Cash Balance

2023

\$5.77

NA

\$2,316.00

2024

\$5.85

\$885.05

\$2,501.05

2025

\$6.25

\$824.80

\$2,625.85

2026

\$6.77

\$907.60

\$2,833.45

Source:

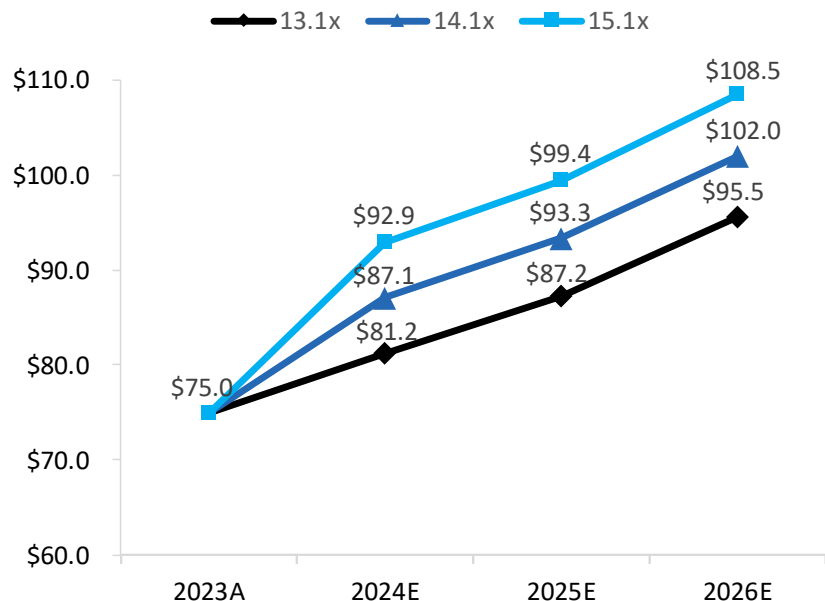
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Present Value of Future Stock Price Analysis

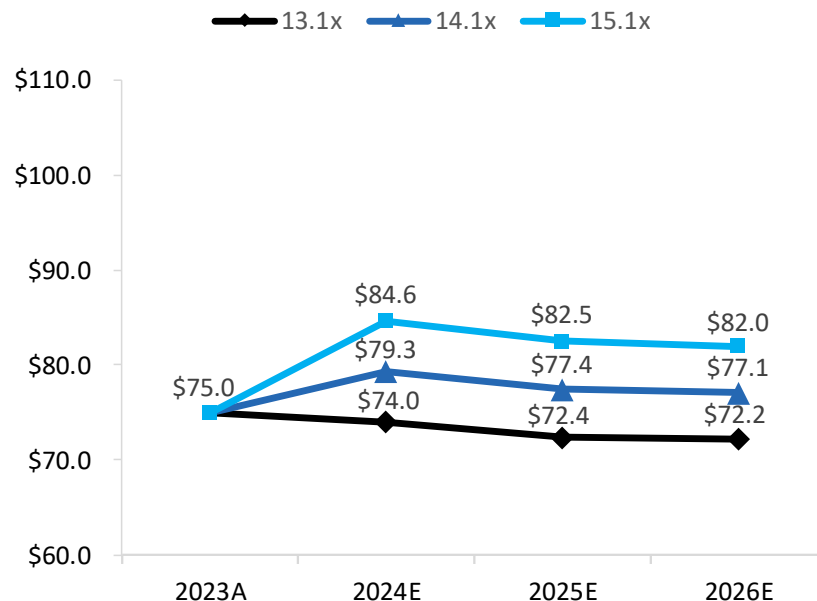
Adjusted for Share Repurchases w/ \$2bn Cash Cushion



Future Stock Price (Undiscounted)



Present Value at 9.8% Cost of Equity



	2023	2024	2025	2026
EPS	\$5.77	\$6.00	\$6.44	\$7.04
FCF After Debt Service	NA	881.98	817.89	898.66
Cash Balance	2,316.00	2,000.00	2,000.00	2,000.00
Diluted Share Count	220.79	210.33	205.14	199.52

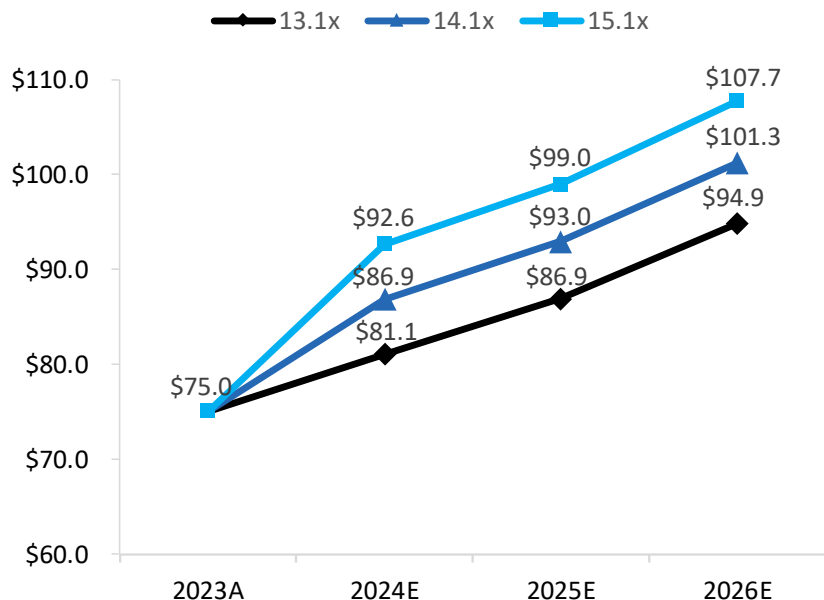
Source:
1. TBU

Present Value of Future Stock Price Analysis

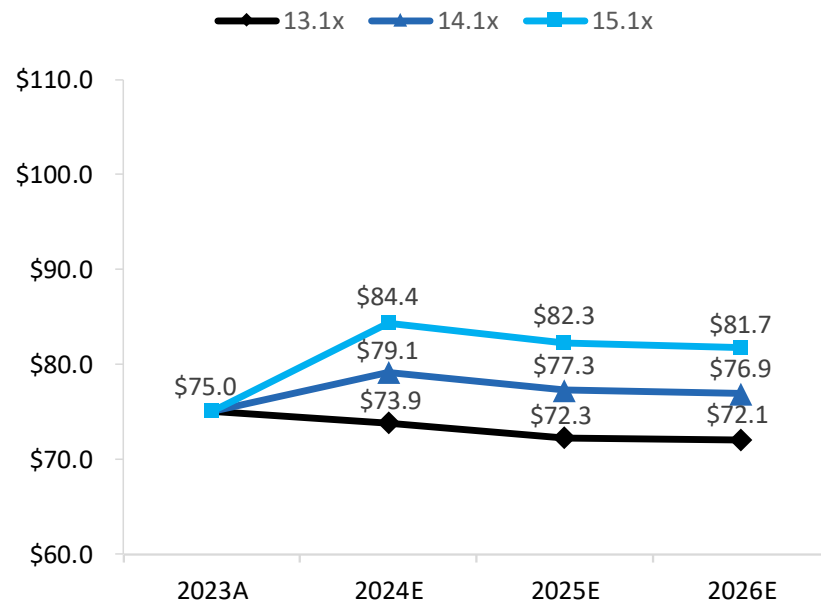
Adjusted for Dividends w/ \$2bn Cash Cushion



Future Stock Price (Undiscounted)



Present Value at 9.8% Cost of Equity



	2023	2024	2025	2026
EPS	\$5.77	\$5.84	\$6.22	\$6.73
FCF After Debt Service	NA	885.05	824.80	907.60
Cash Balance	2,316.00	2,501.05	2,625.85	2,833.45
DPS	\$4.03	\$2.28	\$2.75	\$3.12

Source:
1. TBU

Financial Summary

Assumes Refinancing at SOFR + 1.50%

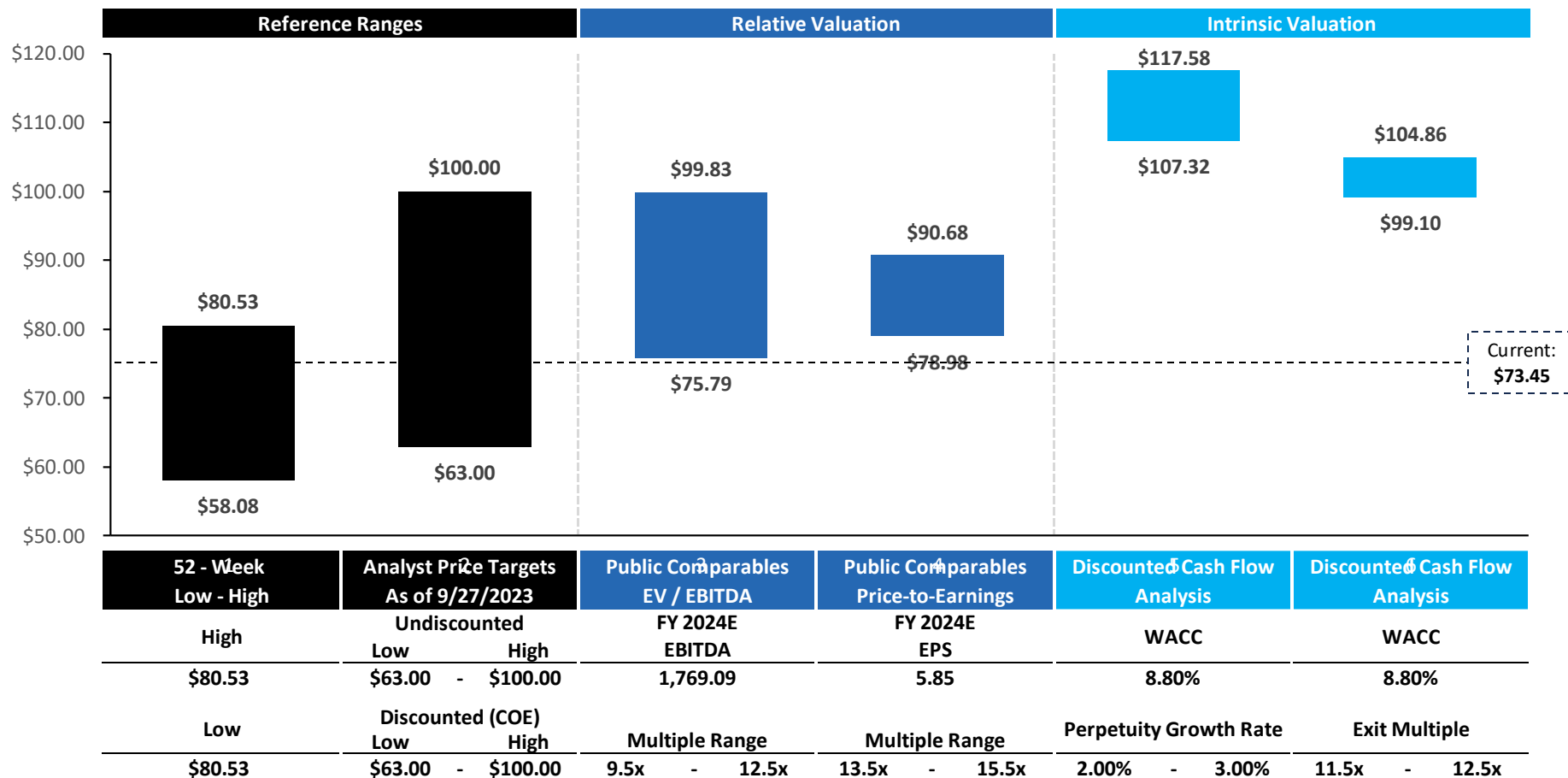


	Historicals	Wall Street Forecast			Illustrative Extrapolation				CAGR
	2023A	2024E	2025E	2026E	2027E	2028E	2029E	2030E	23' - 30'
Revenue	6,362.0	6,142.8	6,422.4	6,767.0	6,912.9	7,062.1	7,214.4	7,370.0	2.1%
% Change	0.7%	(3.4%)	4.6%	5.4%	2.2%	2.2%	2.2%	2.2%	
Less: COGS	(2,153.0)	(1,846.4)	(1,936.7)	(2,053.4)	(2,097.7)	(2,142.9)	(2,189.2)	(2,236.4)	
Gross Profit	4,209.0	4,296.4	4,485.6	4,713.6	4,815.2	4,919.1	5,025.2	5,133.6	2.9%
Less: Operating Expense	(2,943.0)	(2,527.3)	(2,647.6)	(2,770.7)	(2,830.5)	(2,891.6)	(2,953.9)	(3,017.7)	
EBITDA	1,266.0	1,769.1	1,838.0	1,942.8	1,984.7	2,027.5	2,071.3	2,116.0	7.6%
% Change	(6.3%)	39.7%	3.9%	5.7%	2.2%	2.2%	2.2%	2.2%	
Less: Depreciation & Amortization	(248.0)	(235.6)	(208.8)	(196.5)	(201.3)	(206.3)	(211.5)	(216.7)	
EBIT	1,017.9	1,533.9	1,629.2	1,746.4	1,783.4	1,821.2	1,859.8	1,899.3	7.6%
Plus: Other Income (Expense)	46.0	46.0	46.0	46.0	46.0	46.0	46.0	46.0	
Less: Interest Expense (net)	2.0	(30.4)	(50.5)	(63.2)	(67.2)	(70.5)	(65.8)	(69.2)	
Pretax Income	1,065.9	1,549.5	1,624.7	1,729.2	1,762.2	1,796.7	1,840.1	1,876.1	9.3%
Less: Taxes	208.0	(283.5)	(297.3)	(316.4)	(322.4)	(328.7)	(336.7)	(343.3)	
Net Income	1,273.9	1,266.0	1,327.5	1,412.8	1,439.8	1,468.0	1,503.4	1,532.8	8.4%
% Change	35.9%	(0.6%)	4.9%	6.4%	1.9%	2.0%	2.4%	2.0%	
Memo Items									
Tax Rate	20.9%	18.3%	18.3%	18.3%	18.3%	18.3%	18.3%	18.3%	
Gross Margin	66.2%	69.9%	69.8%	69.7%	69.7%	69.7%	69.7%	69.7%	
Operating Margin	16.0%	25.0%	25.4%	25.8%	25.8%	25.8%	25.8%	25.8%	
DSO	221	216	212	209	205	202	199	195	
EPS	\$5.77	\$5.85	\$6.25	\$6.77	\$7.02	\$7.27	\$7.57	\$7.84	

Source:

1. TBU

Financial Analysis Summary



Source:
1. TBU

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WACC



WACC			
Cost of debt	4.58%	Risk free rate	4.44%
Tax rate	<u>18.30%</u>	Beta	1.180
Cost of debt (after tax)	3.74%	Market risk premium	<u>5.50%</u>
		Cost of equity	10.93%
Current debt portion	12.8%	Current Equity portion	87.2%
WACC	8.8%		

Source:

1. Bloomberg