The Spin-Off Report

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Upgrade SNDK to BUY as Stock seems Tolerably Discounted Relative to the Revised Tariff Framework (and the Plausibility of Certain Exemptions for Electronics Products & Components, including Memory Drives)

Sandisk Corporation – Post-Spin – BUY
(from NEUTRAL)

Ticker: SNDK
Current Share Price: (4/11/25): $31.97
Shares Outstanding: ~149 million
Market Capitalization: ~$4.75 billion

Fair Value Estimate: $41.00 per share

Dividend: N/A
Yield: N/A

On February 24, 2025, Sandisk Corp. (NASDAQ: SNDK) completed its separation from Western Digital Corp. (NASDAQ: WDC). In terms of subsequent price action, even accounting for last week's tariff relief-related rally/volatility, shares of SNDK have declined ~36.5% (underperforming the S&P 500 and Russell 2000 indexes by ~26% and ~21.5%, respectively) since its initial debut as a standalone company. Within that context and in light of the reduction of reciprocal tariffs, albeit temporary, on its two main geographic suppliers (i.e., Japan & Malaysia) as well as some U.S. Administration guidance issued late-Friday, suggesting that exemptions (for both China and the rest of the world) will at least provisionally exist for certain electronic products & components, including flash and solid-state memory drives, we think at current levels shares present a markedly improved risk/return scenario. To that end, consider that, by our calculation, the stock seemingly reflects low-to-mid-single digit top-line declines in 2H F2025-F2026 (versus ~17.5% growth in 1H F2025 and management's medium-term estimation of industry-wide growth in the "mid-to-high teens"), a gross margin of ~29.5% (versus nearly ~39% in 1Q F2025 and management's thru cycle target of ~35%), an operating margin of ~13.5% (versus nearly 19% in 1Q F2025 and management's thru cycle target of ~20%) and a ~7.5x multiple (a modest discount to peers Micron & Samsung) on implied 2026E EPS of ~$4.15 (compared with the current consensus estimate, which is undoubtedly stale, of $7.04). While we acknowledge near-term risks remain, including, among others, the resurgence of trade tensions and/or a breakdown in the seemingly more disciplined/improved supply/demand atmosphere, we would note that SNDK's long-term earnings & cash flow outlook, which, without any formal timeline for achievement, targets ~$10 billion in sales and an adj. operating margin of ~20% along with free cash flow (FCF) generation of more than ~$1.2 billion (at which time the company would expect to be net cash positive with gross debt of less than $1 billion; see Exhibit 1 on page 2) could, all else being equal, imply longer-term price appreciation potential to ~$79 per share (see Exhibit 2 on page 2).

In terms of supply chain exposure, as mentioned earlier, SNDK's biggest vectors are clearly Japan (front-end) and Malaysia (back-end) as well as China albeit to a lesser degree, as supported by recent (but prior to so-called "Liberation Day")

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management commentary indicating that, "we produce 100% of our NAND in Japan…so I think our NAND production is in a good place. Everybody -- every company has production in different places. Some have NAND production in China. We don't. And then we take our NAND into different back-end fabs, right? We have a back-end fab in Malaysia, which we showcase it in our analyst days. It's a great fab. It has great capabilities. And we have a joint venture in China, which is pretty much a twin of the Malaysia fab. So as you can imagine, what we've been doing is to make sure that Malaysia can support the U.S., and that, therefore, the tariffs imposed to the cost of the tariffs is minimal to us. So we have a lot of flexibility in doing that. Will there be a cost? Yes, there is still a cost, but it's not something very meaningful for us as far as we can tell based on available information." Seemingly, as of last week, it appears that the reciprocal tariffs of 24% initially levied by the U.S. on the two countries (i.e., Japan & Malaysia) have been reduced to a more manageable 10% (at least for the next 90-days to allow for negotiations to proceed), a factor we have crudely attempted to bake into our revised estimates (which we again note are well below the current, albeit stale, consensus forecast calling for F2026 sales and EPS of $8.65 billion and $7.04, respectively*)*. Anecdotally, amid this somewhat softened stance by the U.S. we would note that trade negotiations with Japan have been fast-tracked/prioritized given its measured/collaborative initial response to tariff implementations and its long history as an important strategic ally, both economically & militarily. Further, as of late-Friday, it appears that updated guidance from the U.S. Customs & Border Protection Agency includes tariff exemptions for certain electronic devices & products, including, among others, flash drives, memory cards, solid-state drives, semiconductors, solar cells and flat screen televisions, which, if durable, could ultimately imply substantial upside to our current forecasts. (That said, we would note that over the weekend Administration officials, including trade advisor Peter Navarro and Commerce Secretary Howard Lutnick, have attempted to, at least rhetorically, walk back the permanence/impact of these exemptions, so we stay with our base case assumptions with the view that any potential relief is simply "gravy".)

On the supply demand front, despite a relatively fragmented competitive backdrop (e.g., as compared with HDD), which includes Samsung Electronics (005930 KS), Kioxia (285A JP), SK Hynix (000660 KS), who acquired Intel's NAND business for ~$7 billion, and Micron Technology (NASDAQ: MU) as well other state-controlled players, such as Yangtze Memory Technologies, management has staunchly contended that after a "cathartic" downturn in 2019-2023 that saw the industry collectively burn ~$40 billion of aggregate cash flow, the sector, as a whole, is entering new paradigm. This so-called "New Era of NAND" is expected to reflect a markedly more disciplined approach to capital deployment/capacity expansion (based on both short-term conditions and long-term expectations) across the industry. More specifically, SNDK has predicted that following a "tough…transition" period in 3Q F2025 (as reflected in the guidance illustrated in Exhibit 1 on page 2) operating conditions could markedly improve in 2H C2025. Clearly, this prognostication could not materialize, particularly if demand, driven by depleted excess inventories, a potential refresh cycle in the personal computer (PC) space on the back of the Windows 11 roll-out and the ramp of AI capabilities, falters but we would note that in March 2025 the company announced a ~10% increase on all of its NAND products (effective April 1st) that has seemingly prompted other industry participants, in varying degrees, to follow suit. As well, while management has not provided any formal guidance on the potential impact of tariffs, they have signaled that additional price increases offer a credible avenue for incremental relief. So, all told, while we acknowledge that demand trends in the more consumer-oriented Flash space will likely remain decidedly more volatile/cyclical than its HDD peers we discern management is earnest/sincere about its keen focus on reducing the volatility in its gross margin through the course of the cycle (i.e., higher-highs & higher-lows) and it seems like other industry participants, in in the interest of the collective betterment, concur.

Recall, in our initial report, which admittedly was before the realized threat of a global trade war, we contended that following the spin-off distribution, we saw a heightened potential risk of initial trading volatility at post-spin Sandisk (SNDK) due to the seemingly dour near-term investor sentiment on the Flash space (and the potential for modest shareholder rotation) but that the dynamic could ultimately present a more compelling entry point for longer-term investors (particularly in front of the potential for a re-rating ahead of a cyclical recovery in 2H C2025, a more disciplined pricing environment and a seemingly solid longer-term secular demand backdrop, particularly in enterprise SSD). As well, we highlighted that despite near-term conditions there was clearly a significant amount of leverage, in terms of post-spin SNDK's share price performance, based on the broad range of potential profitability outcomes implied by management's ~20% adjusted operating margin target (as well as its top-line goal of ~$10 billion), which, we note, could, all else being equal, yield a fair value estimate up to ~$57 per share (and even ~$79 per share at the aspirational revenue target; see Exhibit 2 on page 2*)*.

For reference, our current fair value estimate of $41 per share (previously $49.50 per share), which implies ~30% of potential upside from current levels, is based on F2026E sales of ~$7.35 billion (compared with current consensus of $8.65 billion) and an 8.0x multiple (roughly in-line with peers MU & Samsung) on F2026E adj. EPS of ~$5.15 (compared with current consensus of $7.04; see Exhibit 3 on page 3).

Please see the *Spin-Off Report* dated February 5, 2025 and *Updates* from 2/13/2025 & 2/24/2025, for additional information.

Exhibit 1 Sandisk Corp.: Financial Framework (3Q F2025, Thru-Cycle, & Long-Term)

	3Q F2025		Thru-Cycle Performance (SNDK)		Long-term earnings power
Adj. gross margin	21.5% - 23.0%	Bit growth/year	In-line w/ market	Sales	~$10 billion
Adj. operating expenses (OpEx)	$395 - $405 million	Cost reduction/bit/year	-	Adj. operating margin	~20%
Interest & other expense	~$25 - $30 million	Adj. gross margin	~35%	Free cash flow (FCF)	~$1.2 billion-plus
Adj. tax rate	21% - 23%	Adj. operating margin	~20%	Gross debt	<$1 billion, net positive cash
Adj. EPS	$(0.30) - $(0.45)	Gross capex (% of sales)	Mid-teens		
		Free cash flow (% of sales)	Low-teens		

Source: Company reports.

Exhibit 2 Sandisk Corp.: Valuation Sensitivity Scenarios

Valuation Sensitivity of Sandisk

Operating margin	P/E Multiple 6.0x	6.5x	7.0x	7.5x	8.0x	8.5x	9.0x
15.0%	$30.67	$33.23	$35.79	$38.34	$40.90	$43.46	$46.01
16.0%	$33.01	$35.76	$38.51	$41.26	$44.02	$46.77	$49.52
17.0%	$35.35	$38.29	$41.24	$44.19	$47.13	$50.08	$53.02
18.0%	$37.69	$40.83	$43.97	$47.11	$50.25	$53.39	$56.53
19.0%	$40.02	$43.36	$46.69	$50.03	$53.36	$56.70	$60.03
20.0%	$42.36	$45.89	$49.42	$52.95	$56.48	$60.01	$63.54

Source: Company reports, Bloomberg, and *The Spin-Off Report* estimates.

Exhibit 3 Sandisk Corp.: Post-Spin Fair Valuation Estimate (FVE)

	Sandisk
F2024 Revenue	$6,663.0
Growth	6.5%
F2025E Revenue	$7,096.1
Growth	3.5%
2026E Revenue	**$7,344.5**
Gross margin	31.0%
Gross profit	**$2,279.7**
Opex (as % of sales)	16.0%
Operating expenses	$1,175.1
Operating income (EBIT)	**$1,104.6**
Operating margin	15.0%
Depreciation & amortization	$220.3
EBITDA	**$1,324.9**
EBITDA margin	18.0%
Interest expense	($137.5)
Interest rate	7.8%
Earnings before taxes (EBT)	**$967.1**
Tax rate	21.0%
Taxes	($203.1)
Net income	**$764.0**
Diluted shares	149.0
Earnings per share	**$5.13**
Applied multiple	8.0x
Fair value per share	**$41.02**
Market capitalization	$6,111.9
Net debt	$604.0
Enterprise value	$6,715.9
Implied EV/sales multiple	0.9x
Implied EV/EBITDA multiple	5.1x
Book value	$11,444
Book value per share	$76.82
Implied BV multiple	0.5x
Tangible book value	$4,512.0
Tangible book value per share	$30.29
Implied TBV multiple	1.4x
Implied leverage ratio, net	0.5x

Source: Company reports, Bloomberg, and *The Spin-Off Report* estimates.

Disclosures

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