

Inside Micron: Last quarter's progress.

Jul. 14, 2022

Though the 17% fall in Micron's stock price this quarter may try to tell us differently, Micron actually had a pretty fantastic last quarter. Revenue rose over 16% with new records reached in multiple business categories including the auto, industrial, and networking markets and in SSDs for data centers (storage) and the overall NAND category (26% of the company's revenue). Even though prices for both of Micron's main memory products, DRAM and NAND, fell slightly over the quarter, strong demand meant it continued to ship more product, causing rising revenues. It also executed well operationally, hitting record output despite the ongoing supply chain constraints mostly caused by the lockdowns in China over the last few months.

Revenue by Business Unit

Amounts in millions	FQ3-22	FQ2-22	Q/Q % Change	FQ3-21	Y/Y % Change
Compute and Networking (CNBU)	\$3,895	\$3,461	13%	\$3,304	18%
Mobile (MBU)	\$1,967	\$1,875	5%	\$1,999	(2)%
Storage (SBU)	\$1,341	\$1,171	15%	\$1,009	33%
Embedded (EBU)	\$1,435	\$1,277	12%	\$1,105	30%

June 30, 2022



Micron now leads the world in memory chip technology, and continues to advance. Its latest nodes in both DRAM and NAND keep qualifying for new products made by Micron's clients, and have passed the 50% mark in terms of production mix. (That is, more than half of the company's chip production is these new products, which are more profitable than the older chips.) It launched a new graphics product with twice the capacity and 15% higher performance than the previous generation, cementing Micron's role as the leader in memory for graphics. It remains on track to introduce its next generation DRAM and NAND, the 1-beta DRAM node and the 232-layer NAND node by the end of this year.

Why the dramatic fall in stock price recently? Micron drastically cut its guidance for the next quarter, saying that in recent weeks, demand has significantly dropped off in the smartphone and PC markets. A major part of this weakness came from China, which still insists on fighting Covid with drastic economic lockdowns. So far, most other markets are appearing resilient, but the phone and PC markets are large enough to cause a dent in Micron's previous earnings expectations for the next quarter. This signals the next downcycle for Micron, and the market loves to jump in with both feet once signs of a downturn appear for cyclical stocks. The good news is that often the majority of the selloff occurs during this initial stage, making it an excellent time to buy.

This leads us to the next question: what to do about it? Outlook commented recently on the financial strength of Micron today versus 5 years ago, both during tops and bottoms of the cycle. This strength allows Micron a little more flexibility than in past cycles. It has enough cash to maintain its dividend and share buybacks. It will reduce its capital expenditures on production starting after next quarter, use this quarter to build some inventory, and use that inventory to fill orders in 2023. Most importantly, and different from past cycles, Micron's management made it clear that they will "maintain pricing discipline and walk away from business which doesn't meet our pricing objectives". To put it simply, they feel they're now in a position where if the price someone is willing to pay for a memory chip isn't at Micron's standard, they won't sell to that customer. They would rather let product build up in inventory than take the profitability hit of lower and lower prices. This calls out both confidence in the worth of their industry leading product and also confidence in the eventual recovery of demand. This cycle should prove an interesting one to follow, and while there are certainly lots of near term obstacles to overcome, we believe we'll be happy we bought at today's level come the next upcycle.