

Inside Micron: major goals, and last quarter's progress.

Oct. 2, 2020

For the second quarter in a row, Micron posted improving results: revenue up 24% and earnings per share nearly doubling from a year ago. Its cloud, personal computers, and gaming segments remain strong from the lockdown-related demand spike that started in March, and its smartphone, auto, and consumer markets, which fell when the lockdowns began, are starting to recover. This past quarter ended Micron's fiscal year of 2020, which will undoubtedly be the "bottom" year of the memory cycle. *When compared to the bottom of the last cycle in 2016, this fiscal year saw revenues 70% higher and operating margins 12% higher.* More highlights from the quarter below:

Highlights

- Solid FQ4-20 revenue and profitability driven by strength in DRAM shipments to cloud, PC and game console customers
- In FQ4-20, already achieved our High Value Solutions mix target
- Healthy FY-20 financial results
- In FY-20, introduced industry's first 1Z nm node; first to market with mobile LP5 and GDDR6X products
- Began shipping replacement gate and drove significant increases in QLC mix in FY-20



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September 29, 2020



We remarked 3 months ago that Micron is succeeding in shifting its product mix to more sophisticated, higher-cost memory products from cheaper, simpler "commodity-like" products. This was evident again this quarter. In its NAND memory segment, Micron hit its goal of 80% of NAND production being "high value", more expensive products a full year earlier than expected. Micron's SSD business (solid state drives) continued to be a growth leader: revenue almost doubled from a year ago, with the higher-cost but faster SSDs more than doubling from a quarter ago. It also announced a new DRAM product that leads the graphics memory market in speed. Micron continues to focus on gaining market share in the mobile world in anticipation of 5G rollout, hitting a record number of design wins this past quarter. For a number of years, mobile phone unit growth has been subdued, but is expected to rebound in 2021 with the mass rollout of 5G. 5G smartphones are predicted to rise from 200 million sold in 2020 to 500M in 2021. Each 5G phone has about 1/3rd more DRAM memory and double the NAND memory as a 4G phone.

Since this summary of the quarter seems so positive, we might wonder why Micron's stock fell 7% on Wednesday, the day following earnings. That happened because management forecasted lower-than-expected earnings for the next few months. One reason for the lower guidance is a slowdown in corporate

IT spending that has hit since the initial rush of “work from home” died down. Companies are continuing to cut costs due to the unknowns that the next few months may bring. Another reason for the lower earnings forecast was the ban on US sales to Huawei, effective September 15th. Huawei made up 10% of Micron’s sales last quarter, and Micron only had one month notice before the ban went into effect, which was not long enough to shift its supply to other companies. Micron now expects to be able to offset the loss of Huawei as a customer in about 6 months.

Micron often posts large stock moves in the days following earnings—usually due to short term perceptions. COVID and Huawei restrictions have thrown a wrench into the otherwise normal cyclical recovery of the memory industry. Those issues will be worked out, and Micron showed last quarter that it continued strengthening its product portfolio and operations. Micron is always explosive on the upside of its cycles, and it’s very clear the same thing will happen this time.

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