Inside Micron: Last quarter's progress.

Oct. 14, 2022

The worsening market conditions that Micron signaled during last quarter's earnings were in full effect the past 3 months. Rapidly weakening consumer demand in nearly all end markets led to a 20% revenue decline. The combination of ongoing supply chain constraints limiting some customers' production, China's continual lockdowns, the Ukraine War, and the inflationary environment limiting spending created an "unprecedented confluence of events" that have thrown the memory industry into its next down cycle.

Despite a weak final quarter, Micron's full fiscal year of 2022 (which ended August 31st) still produced record annual revenue. Its mobile, auto, industrial, and networking end markets all hit records, as well as its overall NAND business, where it gained market share. The company returned a record amount of cash also, showcasing the strength of the company relative to prior cycle peaks. It is now leading the industry in technology, and introduced 232-layer NAND, the first company to produce a node more than 200 layers.

Although the conditions that led to the current downcycle are unique, <u>enduring a sudden change in supply and demand fundamentals is nothing new to Micron</u>. Management announced large cuts to capital spending and factory utilization to bring supply in line with demand as soon as possible. Other chip makers are sure to follow suit as they have done in the past. While the next few quarters will have lower revenue and profitability, Micron expects conditions to pick back up again in the second half of 2023. While it's always guesswork to predict a market bottom, typically Micron's stock bottoms out towards the beginning of each downcycle, as the following graph shows. We were happy to snatch up shares a couple weeks ago, and regardless of whether or not this turns out to be this cycle's bottom, today's prices are sure to look very good within the next couple of years.

Micron Revenue and Stock Price, Last 10 Years and 3 Cycles

- Micron Technology Inc (MU) Price
- Micron Technology Inc (MU) Revenue (Quarterly)

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