

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

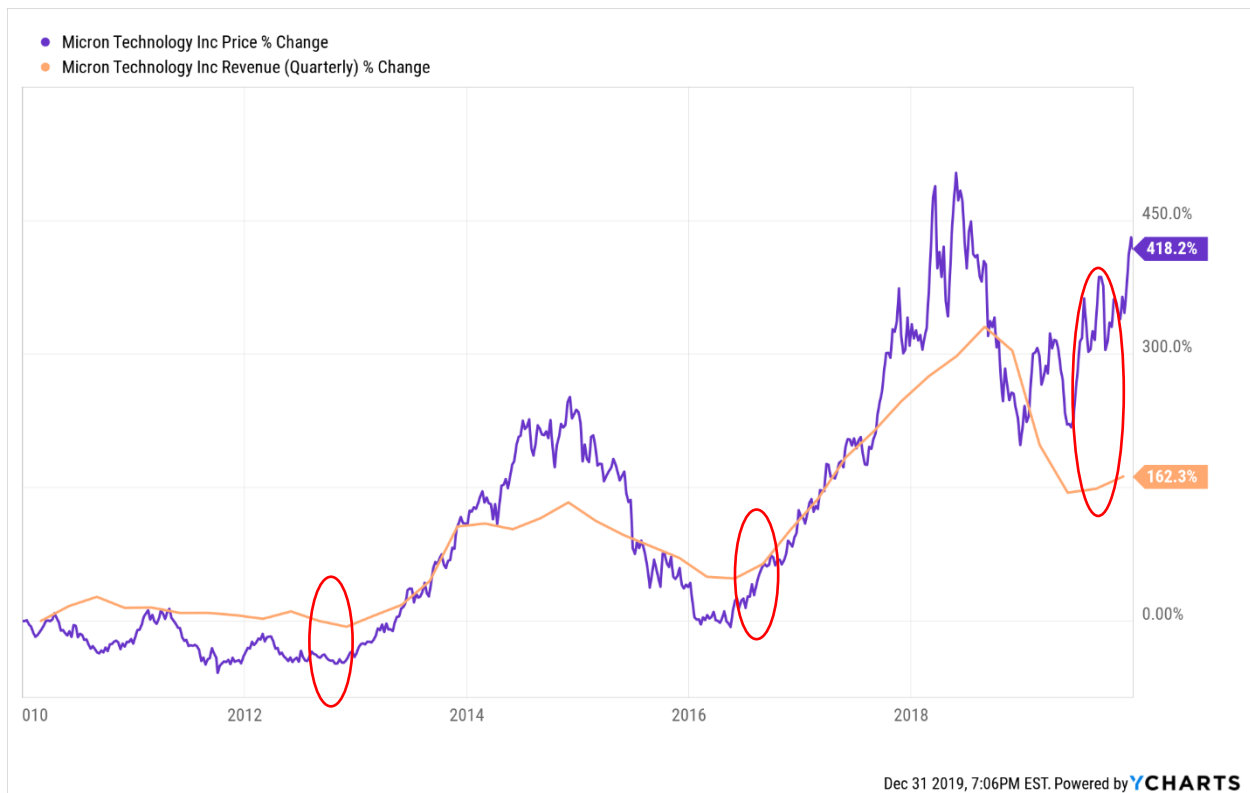
Jan. 2, 2019

The headline from Micron's December 18 earnings report was CEO Mehrotra predicting that the bottom of the current memory downcycle is happening right now. (This past quarter, revenues rose for the second time in a row.) NAND memory pricing began to increase, and DRAM's price decrease began to slow down. Those two facts—plus a few other insights, no doubt—persuaded Mr. Mehrotra that DRAM pricing (65% of Micron's total sales) will probably begin rising in 2020.

If Micron's CEO is right, this will be the first downcycle through which Micron has remained profitable. Micron generated over \$2 billion in cash from operations last quarter, compared to only \$400 million during the trough of the last cycle. It has increased its "high-value solutions" to represent 50% of NAND revenue in 2019 (which has greatly helped NAND profitability through the cycle) and has reduced overall costs to be as low or lower than the competition. Despite nearing the bottom of the cycle, Micron still managed to decrease its share count by 3 million shares through stock and debt repurchases.

It's no longer a question of whether or not the "new Micron" is here: it's a fact.

Moving on to what matters the most to us investors—the stock price—the chart below shows Micron's price and quarterly revenue for the past 10 years, with the 3 red circles indicating the cycle bottoms.



The difference this cycle is that Micron's price began to rise in June of 2019, well in advance of the actual bottom or news of the bottom, and now sits around \$54, just \$10 off last cycle's peak. Thus, the big question the Street asks today is "has Micron's next upswing already been priced in?" Our answer mirrors what we talked about in the past 2 days' "Outlooks". Compared to its industry and to the whole market, Micron's valuation of 10x earnings is not optimistic at all. Compared to the profits Micron will earn during anything like a normal memory upcycle, Micron is amazingly undervalued. We've seen our company become much stronger financially and operationally over the past 3 years—from a level, back then, which was already quite strong. This hard work will generate much higher profits from up-swinging sales than the company has ever seen before. Mr. Mehrotra's comment about the arrival of the cyclical bottom means that payoff is very likely to show itself in 2020 and beyond. Micron has earned its higher price during this cycle's bottom, and we believe it will earn a much higher peak in the next few years.

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