

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

Jul. 2, 2020

Earnings Season for the second quarter of 2020 is right around the corner. It might be the worst single quarter of business results since the Depression. We wouldn't know there was much of a problem, though, from Micron's results.

Micron's fiscal third quarter revenue was up 13% from a year ago, marking the first quarter of growth since the memory downturn started. Both pricing and volumes of DRAM and NAND memory were higher, but NAND revenue improved the most (50% higher than a year ago compared to DRAM's 6%). COVID-19 has slowed the recovery of some of Micron's markets while helping others. The smartphone, car, and PC markets are all expecting lower sales numbers for the year, while the data center market has seen strong demand due to increased online activity. This strength in the data center market will probably continue through the end of 2020 and beyond. 3 of the 4 business units saw revenue growth, summed up below.

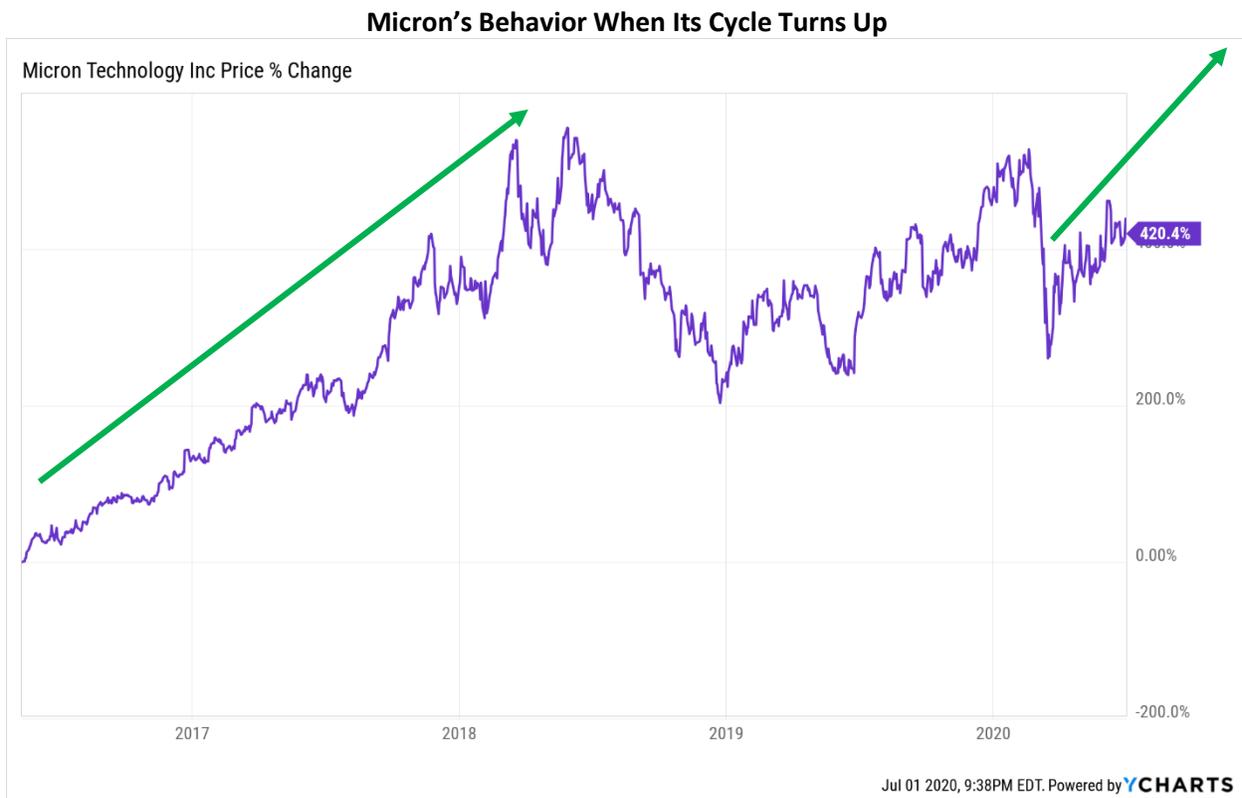
Revenue by Business Unit

	FQ3-20	FQ2-20	Q/Q % Change	FQ3-19	Y/Y % Change
Compute and Networking (CNBU)	\$2,218M	\$1,967M	13%	\$2,079M	7%
Mobile (MBU)	\$1,525M	\$1,258M	21%	\$1,174M	30%
Storage (SBU)	\$1,014M	\$870M	17%	\$813M	25%
Embedded (EBU)	\$675M	\$696M	(3)%	\$700M	(4)%

Other highlights from the quarter include record revenue in SSDs (solid state drives), with cloud SSD revenue more than doubling from a quarter ago. Micron has focused on gaining share in the SSD market since 2016 when CEO Mehrotra and team took over (Mehrotra was formerly at SanDisk, then the world's second largest SSD manufacturer). It seems to be succeeding at this task, achieving new records of revenue and unit shipments in various SSD categories over the last year. SSDs are one of Micron's "high-value NAND solutions", bringing in more revenue per unit than other solutions. At the end of 2019, high-value NAND solutions were 50% of Micron's NAND shipments and its goal was to hit 80% by the end of 2021. The past quarter, it hit 75%, well on track towards its goal. Another highlight, despite weakness in auto sales by unit, was that Micron posted record LP4 DRAM revenue, the product that is most used in autonomous driving and driver-assistance platforms, demonstrating just how much more memory content is being used in cars today than even a year ago. *The most encouraging thing about these results*

is that they show Micron is succeeding with its long-term game plan of shifting toward more sophisticated and profitable memory products, and away from the simpler “commodity-type” products.

Its nice to finally see the start of the next upcycle for Micron. Although sales will be affected over the next couple of quarters by COVID-related weakness and other trade uncertainties, Micron’s impressive results this past quarter show that despite this weakness, it will still show substantial growth. The efforts of management at reshaping Micron’s business operations over the last 4 years showed during the bottom of the downturn, when it remained free cash flow positive, and it will show even more during this upswing. With its stock price just 20% below the peak of last cycle, which saw some 500%+ appreciation of the stock price (green arrow below), the stage is set for a much higher new peak this time around. We suspect it will be a fun ride to watch as investors.



Theresa Kroll
Outlook Capital Management, LLC
(847) 347-7773